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RETAIL CREDIT FUNDAMENTALS

RETAIL
CREDIT FUNDAMENTALS

Official Textbook
of the
National Retail Credit Association

BY

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Revised Edition

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TO THE CREDIT STUDENTS OF TODAY

WHO WILL BE

THE CREDIT EXECUTIVES OF TOMORROW

FOREWORD

This official textbook of the National Retail Credit Association, prepared by Dr. Clyde William Phelps with the assistance of our Educational Committee, has been several years in the making.

The purpose of the National Association was not to add just another book on retail credit to the literature in the field, but to create a practical treatise especially designed to meet the basic needs of its members. To be more specific, it was felt that, instead of attempting to cover in superficial fashion all of the various subjects in which the manager of credit sales might be interested, this textbook should treat only those basic functions which every employee in the credit department should be expected to know, and to do this in a thorough manner.

The treatment is practical rather than academic. Every chapter has been carefully read and revised by each of the members of the Educational Committee, Frederick W. Walter, *Chairman,* and by Secretary and Research Director, Arthur H. Hert.

The aim in the following pages is to set forth not a long series of chapters more or less disjointed but instead a logical presentation of the cycle of credit work—an analysis organized under the three logical phases of (a) securing, (b) controlling and (c) collecting the account.

The method used is the functional approach. Instead of abstract description, the center of attention is the functions which must be performed by *any* credit sales department. It is the fundamental functions of credit management in which we are interested, not how the work happens to be done in some particular store. Consequently, throughout the following pages the development of thought runs logically: What are the functions? Why must they be performed? How—what are the various ways in which these functions are being performed in large, medium size and small stores?

In concentrating attention upon the fundamental functions and discussing the many different ways of doing each function, the text prepares the reader to find things different if he goes from one credit sales department to that of another store, but to recognize fundamentals.

This "reason why" approach is valuable because efficient credit sales department operation requires that employees know the reason why they are expected to do certain things and to do them in a certain way. The manager of credit sales must see that his employees know not only *what* and *how* but also *why*. First, because employees work more cheerfully and effectively when the "reason why" has been explained; also it makes them appreciate the romance and meaning of their jobs. Second, employees will make fewer mistakes in handling the customer because they will be able to use their powers of reasoning and judgment instead of blindly applying rules the basic reasons for which are not understood.

In this revised edition, minor changes have been made throughout the volume. No major changes have taken place during the past decade in the basic fundamentals of retail credit operation, to the treatment of which this textbook is restricted, and on which it has come to be regarded as a classic.

L. S. Crowder,
General Manager-Treasurer,
National Retail Credit Association.

PREFACE

This is intended as an elementary or introductory treatise to prepare the credit man for further study in the principles and practice of retail credit. There are always pedagogical differences over content, structure and emphasis, and it is important to keep in mind not only the purposes established but also the needs of the specific group envisaged.

In the case of this volume for men and women engaged in retail credit work, the views of the Board of Directors and the Educational Committee of the National Retail Credit Association would seem deciding and valid. It was felt that the treatment should be of such nature and the subjects so selected as to be suitable and worth while for *all* employees in the credit sales department. Thorough analysis, therefore, is made of those functions and aspects of retail credit thought to be fundamental or most important and which the manager of credit sales might well urge or require all of his employees to study and know. Other subjects more especially appropriate for the manager of credit sales himself, his assistants, and certain employees are only mentioned or treated briefly, being reserved for further study in a volume on retail credit management.

I wish to acknowledge the fine assistance of Mr. F. W. Walter and the members of his Educational Committee and the officers of the National Retail Credit Association, all of whom cooperated closely throughout the preparation of this text.

Upon the occasion of this new printing, advantage has been taken of the opportunity to bring up to date references and illustrations where necessary and to make other desirable changes.

CLYDE WILLIAM PHELPS.

University of Southern California.

TABLE OF CONTENTS

BOOK I: SECURING NEW BUSINESS

BOOK II: CONTROLLING THE ACCOUNT

BOOK III: COLLECTING

BOOK I
SECURING NEW BUSINESS

RETAIL CREDIT FUNDAMENTALS

CHAPTER I

CREDIT AS A BUSINESS FORCE

"Credit has done a thousand times more to enrich mankind than all the gold mines in the world. It has exalted labor, stimulated manufacture, and pushed commerce over every sea."

—*Daniel Webster.*

This Is a Credit World

Today we may be said to live in a credit economy or credit world, in a business system pervaded by the power called Credit.

We are used to hearing modern life spoken of as the machine civilization, the power age, industrial society, capitalistic culture, and so on. Each of these phrases is an attempt to differentiate our present society from preceding civilizations or epochs by naming it after some outstanding characteristic which is more prominent today than in the past.

Many of us perhaps are not accustomed to viewing the world of today as a credit economy. Yet credit is a feature which is certainly as important as other frequently mentioned characteristics of the modern world.

We are attracted by the spectacular and the unusual; we tend to overlook the commonplace and everyday phenomena of life. This may be why the extraordinary importance of credit in our modern economic system does not occur to the average man. Credit is such a usual, everyday feature of our daily life that we fail to grasp its great significance and to be aware of the tremendous part for good or evil it plays in the modern world.

Or possibly the true explanation is that the average person, while awake to the numerous great problems of our daily life, does not perceive that so many of them are really matters of credit. So, when we open our eyes, we look around to find life filled with the influence and example of the working of the power we call credit. We are struck by the tremendous extent to which business is done on credit, i.e., by getting goods, services or money in the present from others and promising to render an equivalent therefor in the future.

The Pervasiveness of Credit

Thus, we find federal, state and local governments using their credit by borrowing money, usually by means of selling their bonds or notes, and promising to pay it back sometime in the future. Railroads, public utilities, and other business enterprises borrow in the same way and also get goods from producers and middlemen by promising to pay within a stipulated time. Farmers and producers of raw materials, manufacturers, middlemen and retailers borrow and buy on credit. Banks and other financial institutions get money from the public and lend or invest it, promising to pay it back on demand or at some future determinable date. Consumers buy now, or borrow for the needs of the present, and promise to pay later.

In short, governments, producers of farm products and raw materials, industrial enterprises, merchandising establishments, financial institutions and consumers are all living in a world dominated by credit and facing credit problems. Perhaps too few realize the significance of credit or are able and willing to manage this power.

Hildebrand, the great German economist of the Old Historical School, divided the development of our economic system into three main stages. First was the Natural Economy which lasted up to the twelfth century, and during this period men generally carried on trade by means of barter or direct exchange. The next stage was the Money Economy which developed as gold, silver and other

money displaced the barter method. The present stage is called the Credit Economy because credit instruments have become many times more important than money in paying for purchases and for debts.

All of the various kinds of money in circulation, now that the use of gold has been made illegal, are credit instruments—promises to pay issued by the federal government, the federal reserve banks and the national banks. This applies from pennies on up through the various types of coins and paper money. Most of our purchases and debts are paid today in the United States with checks and similar media rather than money, but these checks and drafts are simply credit instruments of the order-to-pay type. Probably 90 per cent of our transactions are settled this way.

The Importance of Credit

It is evident that the modern widespread use of credit rears up an enormous debt structure—for the other side of Credit is Debt. If one abuses his credit by creating debt which he is unable to pay as agreed, it is apparent that the creditors suffer. But these creditors are debtors of still other people. And so the effect of a breakdown due to unwise credit control, or lack of control, can spread in ever-widening circles. And the retail customer or ultimate consumer is the key to the entire situation. As long as he buys and pays promptly the business system can function normally. When he does not buy, or pay promptly, or both, our Economic World becomes maladjusted. The credit problem, in brief, is the problem of keeping debts from getting out of line with ability and willingness to pay.

When we call the modern world a credit economy, we are naming it after but one of the characteristics which distinguish from the past, but that characteristic is an extraordinarily important one. We call it a credit economy not simply because credit is used, but because it is used upon such a tremendous scale, and because the wide use of credit powerfully affects so many other factors of present day life.

Role of the manager of credit sales.—It follows that the position occupied by the manager of credit sales is of an importance which should not be underestimated. However, it must be admitted that the recent tendency is to overemphasize the role of the manager of credit sales as a selling employee rather than his function of controlling credit and preventing its abuse.

According to one theory which has gained many adherents, the manager of credit sales would no longer be the kindly adviser who would rather refuse a new account or restrict credit privileges on an old account than to pass a sale which would involve a family deeper in debt. He would become an acquiescent tool in the policy of moving the goods off the shelves through super-salesmanship and high-pressure advertising no matter how many families were plunged into the nightmare of debt.

In contrast, it would seem that the real duty of the manager of credit sales should be to act as a balance against the anti-social policy of extreme sales and advertising pressure. He must develop a social consciousness and take into consideration the effects of his store's credit policy upon the lives of his customers as well as the effects on the store's balance sheet.

One of these days business will recognize that it is too selfish; it wants volume and more volume, regardless of the effect on the customer, regardless of the effect on its employees, regardless of the effect on the community at large. And this is true whether the procedure is by cash or by credit; of course, it is intensified by the use of credit. Society is not going to permit the abuse of installment and charge account credit to go on forever, and it is going to hold the retailer responsible.

What Is Credit?

Definitions of credit have been many and diverse. That they are so often unsatisfactory is due to the fact that they are frequently only a definition of some element or aspect of credit or some feature associated with credit rather than credit itself.

Thus, credit has been defined as confidence, but this is only one element of credit. It has also been called suspicion asleep, but this is merely another aspect of credit. It has been referred to as a convenience, but this is simply a feature connected with buying on credit. Still other conceptions have confused it with credit instruments and with credit transactions.

To frame a satisfactory definition of credit, we must realize that there are two phases of credit—potential credit and actual credit—and define both.

Potential credit is the power to obtain present goods (goods, services or money) in exchange for a promise to render a future equivalent. This power resides in the prospective buyer or borrower, and is based upon his character, capital and capacity and influenced by business conditions. The amount of potential credit which one may possess depends not only upon willingness and ability to pay but also on the length of the credit terms allowed.

It is this phase of credit that the manager of credit sales is called upon to evaluate when he is requested to open a charge or installment account, and when he is controlling the subsequent purchases made on the account. When we say that the creditor grants credit we really mean that he grants the credit privilege, i.e., he grants to the customer the right to make use of his credit.

Actual credit is a creditor-debtor relationship. It is created as potential credit is used. Thus, the manager of credit sales may find that the would-be customer's income is well in excess of his obligations and that he therefore possesses potential credit, or power to secure goods by promising to pay for them in the future, and allows him to charge $50 worth of goods. Fifty dollars of *actual credit* has been created by this credit transaction, and the customer's *potential credit* has been temporarily reduced. This actual credit, looked at from the point of view of the customer, is a debt and an obligation to pay; viewed from the merchant's point of view, it is an asset and a right to demand payment.

In order to evaluate a prospective customer's potential credit, it is evident that actual credit must be taken into consideration. He may have involved himself in so much actual credit, or outstanding debts, that he has little or no potential credit remaining at the moment. Also, it is actual credit, or outstanding debts, that the manager of credit sales is concerned with in his collection control. Faulty credit control allows goods to be sold on credit to people who have used up their potential credit; the credit accepted by the merchant is fictitious rather than real, i.e., the buyer secures present goods in exchange for a promise which he will not be able to redeem.

Credit Transactions and Credit Instruments

From the foregoing, it is clear that the use of credit involves a cycle: potential credit—actual credit—potential credit. Thus, the customer's potential credit is reduced or transformed into actual credit when he makes a charge or installment purchase, and is built up again as the actual credit, or indebtedness, is paid off.

It is also clear that when part of a person's potential credit is transformed into actual credit, as when borrowing or buying on charge or installment accounts, a credit transaction evidenced by some credit instrument arises and a creditor-debtor relationship is established.

The *credit transaction* consists of two reciprocal exchanges: the seller gives the buyer merchandise and in exchange accepts the customer's promise to pay, representing his potential credit. After a lapse of time there are two more reciprocal exchanges, when the customer redeems his promise and restores his potential credit by rendering the promised future equivalent (usually money). Since there is a lapse of time in credit transactions, it is evident that the element of confidence must be present.

The creditor-debtor relationship established *is* the actual credit, and it is evidenced by *credit instruments* like the open book account for regular charge business and the conditional bill of sale, chattel mortgage or lease for installment business.

Classes of Credit

The two basic classes of credit are public and private.

Public credit is the power of federal, state or other governmental units to secure present goods in consideration of a promise to render a future equivalent. This power rests upon the ability and willingness of the government to pay, which in turn depend ultimately upon its taxing power and sense of moral obligation.

Failure to achieve, or to progress in the direction of attaining, a balanced budget inevitably means that after a period of time confidence in public credit becomes impaired. For a continually unbalanced budget means that the government is spending more than it is taking in, and is borrowing to make up the difference. Continued borrowing means progressive increase of actual public credit (government debt) until the point is reached when creditors come to feel that the government's potential credit has been used up. Inflation or repudiation of its indebtedness by the government generally follows.

Private credit, as contrasted with public credit, is that which is used by private individuals or enterprises. There are many possible ways of classifying the various types of private credit, but it will be most serviceable for our purposes to classify it according to two main types: credit used by business enterprises and credit used by consumers.

Business enterprises, including producers of raw materials and farm products, manufacturers, middlemen and retailers, make use of three kinds of credit: investment, mercantile, and banking credit.

Investment credit is used for the purpose of acquiring fixed assets and permanent working capital. The credit instruments generally used are bonds, mortgages and promissory notes. It is long term credit.

Mercantile credit is used to secure temporary working capital from other business enterprises. For example, the retailer uses mercantile credit when he buys from the wholesaler or manufacturer on a credit basis. It is short term as contrasted with long term credit. The credit trans-

actions may be evidenced by such credit instruments as open book accounts, promissory notes, or trade acceptances.

Banking credit is also used to secure temporary working capital to meet seasonal needs. Thus, the retailer may borrow from his bank for the purpose of buying goods or meeting other expenses. This is short term credit and is usually evidenced by promissory notes given to the bank.

Consumer Credit

Consumer credit, or individual credit, is used by the ultimate consumer for consumption rather than business purposes, and may be divided into three main types: open account, deferred payment, and personal loan credit. The first two make up the field of retail credit.

As to length of term, two main kinds of consumer credit may be distinguished. Short term consumer credit includes the ordinary charge account business and the so-called budget plans offering nondurable goods or "all types of merchandise in the store" on installment contracts running several months. Long term consumer credit comprehends the installment selling of houses, automobiles and other durable goods as well as a large part of consumer borrowing.

Consumer credit may be classified also as to security. Unsecured consumer credit is represented by the monthly charge account and installment selling of the budget plan type. In some cases a monthly charge account is secured by a guarantor and frequently installment sales of non-durable goods or all types of merchandise under budget plans are secured by a contract which embodies a confession of judgment or a wage assignment.

Secured consumer credit is exemplified by the installment selling of durable goods and by consumer lending, the security being in the form of mortgages, chattel mortgages, collateral, conditional sales contracts, leases, indorsers, and so on. In this study we are primarily interested only in one of the many fields of credit: that of retail credit which embraces sales of retailers to ultimate consumers on charge or deferred payment accounts.

The Growth of Consumer Credit

The buying of goods to be paid for later and the borrowing of money to be repaid in the future are ancient practices. Such credit transactions had their origin back in the mists of antiquity. The discoveries of archaeologists show us that promissory notes, evidencing credit transactions, were used in Babylon over 4,000 years ago; the Bible makes numerous references to credit regulations and practices existing before the time of Christ, and ancient history tells of the credit reforms of Solon in the Greece of the seventh century B. C. Installment credit principles were used in the marine insurance contracts of Babylonians and Phoenicians as well as in the purchase of real estate in Egypt and Rome.

As the various forms of credit developed throughout the centuries, it is interesting to note that while public credit, investment credit, banking credit and mercantile credit soon became widespread and important in economic life, the growth of consumer credit to a position of considerable significance is a comparatively recent phenomenon. Whereas the first general *mercantile* credit agency in the United States was established in 1841 and the mercantile credit granters organized their National Association of Credit Men in 1896, the first *retail* credit agency in this country was not established until 1869 and the National Retail Credit Association was not formed until 1912.

Retail credit stores.—Consumer credit did not begin its period of greatest growth until after the turn of the present century. At that time charge accounts were enjoyed only by the rich and the good friends of certain merchants; today they are granted, even urged upon, any one and everybody who is considered willing and able to pay. At present there are approximately one and three-quarters million retail establishments in the United States and every other one of these stores offers its customers the privilege of buying on credit.

Altogether, our retail credit stores were doing about two-thirds of all our retail trade before World War II. Approximately one-half of their business was credit and the other half cash, and therefore about one-third of all retail sales were made on credit. Of course, in a number of lines of business, stores generally do much more than one-half of their business on a credit basis, while in other lines sales are mainly for cash today as in prewar days.

The expansion of retail installment credit got under way still later than charge account credit. The rapid growth of the installment selling of durable goods has come about since World War I, while the striking development of nondurable goods installment selling has occurred since 1931. Since neither retailers nor manufacturers were able or willing to carry the long term contracts covering the installment selling of automobiles and certain other durable goods, the sales finance companies have performed this service and are now being joined by the commercial banks in this field of finance.

Retail credit sales.—It is estimated that 13 per cent of the 17 billion dollars of retail sales in 1912 was made on credit and 20 per cent of the 37 billion dollars of retail trade in 1920. Actual figures were first gathered by the U. S. Census in 1930 covering 1929 credit sales. These figures showed that for 1929 some 34 per cent of the total 49 billion dollars of sales by retailers were credit sales. In 1935, according to the Census, 32.2 per cent of the 33 billion dollar retail volume was credit business (21.3 per cent on charge accounts and 10.9 per cent on installment accounts). For 1939, the Census found that 34.2 per cent of the 42 billion dollar sales of retailers was on a credit basis (almost one-third of these credit sales were on installment contracts). The Federal Reserve System estimates that credit sales reached 36 per cent of the total 46 billion dollar retail sales volume in 1940 and then, because of wartime curtailment of the use of consumer credit, declined steadily to 22 per cent of the total 75 billion dollar volume in 1945, after which a revival began.

Personal loan credit.—There is in addition to charge account and installment credit a third main classification of consumer credit which may be called personal loan credit, and its rise to importance is also a recent development. For example, none of the following agencies of mass finance were in existence forty years ago: credit unions, industrial or Morris Plan type banks, personal loan departments of commercial banks, and small loan companies operating under state laws. These consumer lending institutions may be viewed as competing to some extent with the charge and installment business of retail stores. However, much of their business in this connection is concerned with refinancing customers who have become involved in debt due to unwise credit extension by merchants or to family emergencies or both.

Credit reporting agencies.—The tremendous growth of retail credit called for the establishment of consumer credit reporting agencies and bureaus to provide information for sound credit decisions. It appears that by 1890 there were 13 retail credit agencies in the country. In 1947 there were over 1,350 credit bureaus included in the membership of the Associated Credit Bureaus of America, which consists of bureaus affiliated with the National Retail Credit Association. Besides these retail credit bureaus, there are many local private retail credit agencies and several national organizations having branches in many cities like Dun & Bradstreet, Inc., the Retail Credit Company, the Hooper-Holmes Bureau, Inc., General American Credits, and the American Service Bureau.

Credit education and research.—Another development has been the offering of study courses in retail credit by universities and by the National Retail Credit Association, and the extension of research in the field of retail credit by such institutions as the U. S. Department of Commerce, the Board of Governors of the Federal Reserve System, the National Retail Dry Goods Association, the National Retail Credit Association, and the Retail Credit Institute of America, Inc.

Credit and the Business Cycle

Business cycles, or periods of prosperity followed by depressions, became pronounced when the widespread use of credit began. Since 1796 we have experienced in this country about three dozen business cycles. This means that *on the average* we have been plunged into a depression about once every three and one-half years where we have been forced to suffer one year of business prostration for every year and a half of prosperity and inflation that we have enjoyed.

There are scores of theories which attempt to explain the business cycle as being due to some one cause or another. But scholars generally agree that there is no one specific cause or fixed set of causes, that the break-down from prosperity into depression is due to a maladjustment of some kind, and that, whatever the causes may be in the case of a particular cycle, business overexpansion, crisis and depression cannot take place unless there is credit inflation. In brief, overextension of credit is the indispensable instrument which must be used to bring about abnormal booms which break down into depressions.

While the individual retail credit man can do nothing by himself, the development of sound credit management generally among those entrusted with credit granting in all fields of economic activity would undoubtedly contribute greatly to the control of business cycles. And it should be emphasized that the individual manager of credit sales certainly can protect his firm from the full effects of the business cycle by learning to extend credit more carefully in periods of prosperity which would protect from abnormal loss and enable him to pursue a more liberal policy during the ensuing depression and business recovery period.

Before we can expect to conquer the business cycle, we must build up a generation of scientific credit men in all lines of activity. As long as the tremendous force of credit is subject to administration by unskilled and unscientific minds, there is little hope of mitigating the business cycle.

The Education of Credit Men

With the growth in the size of retail establishments and the increase in the volume of business done on a credit basis, the position occupied by credit men has developed greatly in importance. In the old days the handling of credits and collections was the job of the bookkeeper or one of the many details which were attended to personally by the owner of the small business. In the smaller retail stores it is still true that the job is not big enough to compensate a highly trained credit man.

But in thousands of retail institutions the volume of credit business handled is so large and the necessary system and technique so complex that men and women of highly specialized training and long experience are required to handle the problem. Here we no longer have the bookkeeper but instead the manager of credit sales, his expertly skilled assistant managers, and specially trained personnel.

This changed situation demands and requires increasing education of credit men and women. The manager of credit sales who would grow in ability and power, and those of his employees who would prepare themselves to rise to higher positions in the field of retail credit, must study the science of retail credit management as well as learn the art from everyday experience.

Benefits of credit study.—Such study of the science, resulting in organized knowledge of the theory and practice of credit, redounds to the advantage of the student of credit in many ways. It enables him to gain a clearer comprehension of the relation of his task and his field of retail credit to all other fields of credit, and to the great business system of the country in general. Thereby it has a cultural value in giving him an appreciation of his place in society and a better understanding of modern life and problems.

It enables him to better serve his firm by safely and profitably handling the important problems of credit management and to become a more valuable member of the organization. It helps him to forge ahead toward increasing per-

sonal success for himself and his family. And by making him more scientific in credit management, it aids him to make his contribution toward serving society by cooperating toward the control of credit.

Credit work should be viewed by the manager of credit sales and the credit employees as an opportunity for self-development. This requires, among other things, that the credit man keep accurate records of what he does in carrying out each function or sub-function and then check the results so that his technique may be steadily improved. He must keep constantly in mind that his prime objectives are to protect, to promote, and to improve public relations. In some of the functions of retail credit management which we are about to examine, the objective is primarily to *protect* the store while in others the fundamental consideration is the *promotion* of its credit business, but throughout all of the activities involved in retail credit management should run the objective of building finer *public relations* in every contact of the credit sales department with consumers.

QUESTIONS

1. Is it an exaggeration to call our modern civilization a "Credit Economy"? Give reasons to support your answer.

2. "The recent tendency is to overemphasize the role of the manager of credit sales as a selling employee rather than his function of controlling credit and preventing its abuse." Which do you consider to be the first duty of the manager of credit sales, to sell or to control credit? Why?

3. "The use of credit involves a cycle: potential credit—actual credit—potential credit." Explain.

4. Differentiate between credit transactions and credit instruments. Give examples.

5. Classify credit as to various important types or kinds, indicating the special characteristics of each.

6. Give illustrations of short and long term and secured and unsecured consumer credit. What kinds of security may be obtained?

7. "The growth of consumer credit to a position of considerable significance is a comparatively recent phenomenon." Discuss.

8. What effect might there be on the volume of retail credit business if creditors kept customers from becoming involved in debt on charge and installment accounts?

9. With regard to counteracting the bad effects of business cycles, what can the individual manager of credit sales hope to accomplish?

10. In what ways do you expect to benefit from this study of the fundamentals of retail credit?

CHAPTER II

OBTAINING APPLICATIONS FOR ACCOUNTS

When we study the life of a charge account, we discover that it experiences three main phases. First, the account is put on the books, then the use of it is controlled, and finally the amounts owed are collected or the account is closed. These stages in the life of a charge account parallel the three main divisions of credit work. In brief, the operation of a credit sales department may be logically divided into three major phases: 1. Securing New Business; 2. Controlling the Account; 3. Collecting.

These are the three fundamental functions of credit management, and to carry out each of them requires the performance of several subordinate functions.

The Three Fundamental Functions of Credit Sales Management

Now, all of these functions must be discharged by credit management irrespective of the size of the store, the line of business or the kind of credit (charge or deferred payment*) involved. It is true that the details of the actual methods used to carry them out differ greatly from store to store, but the functions are everywhere the same. That is why we shall follow the functional approach in this study.

The Functional Approach

That is to say, our primary concern is to analyze these functions in logical order to see *what* they are and *why* they must be performed in order to protect the store, to promote credit sales volume, and to build good public rela-

*"Deferred payment" is used in this book as a general term to cover regular *installment* business (which is concerned with the selling of hard, durable, or repossessable merchandise of relatively high value on fairly long time) and "*budget*" plans (which are offered under a great variety of names but which are all characterized by the selling of soft, perishable or non-repossessable goods which are frequently of low value, or "all types of merchandise in the store," on relatively short terms).

tions. But to make our analysis concrete and to illustrate fundamental principles, we shall also notice *how* they are performed in small and large stores in different kinds of business.

This is the most fruitful approach to the study of credit. For the employee needs to learn, or to be told, *Why,* in order that he may feel that he is treated as a thinking human being, that he may not make the many mistakes which are inevitable when one is doing something he really does not understand, that he may gain a sense of the importance and inspiration of credit work, that he may not be so quick to jump to the conclusion that any way of doing the job differently from the way he has learned is necessarily wrong.

Since the basic functions of credit sales management apply to installment and budget plans as well as to charge accounts, as we discuss each fundamental we shall see first how it applies to charge business and then notice whether there are any special difficulties or differences in connection with deferred payment business.

Securing New Business

Why This Function Must Be Performed

Estimates published in the *Credit World* indicate that the average retailer may have a turnover in his credit customers of around 20 per cent annually. That is to say, during the year 20 per cent of his charge and deferred payment customers may be lost due to death, moving away, going elsewhere to trade, and so on.

Thus, the charge and deferred payment accounts of a retail establishment are always in a state of flux, new ones constantly being added and old ones being closed. This continuous ebb and flow of accounts tends either toward success and progress or toward failure. To an important degree the continuance in business and the success of the house depends upon making old accounts profitable, a subject treated in Chapters X and XI, and in constantly securing profitable new business. That the credit sales de-

partment, as well as other departments of the store, has a significant part to play in both jobs is apparent.

Necessity of Securing Profitable New Business

But the job to be performed is not just to obtain new business, but to secure *profitable* new business. There are several considerations worth mentioning in this connection. In the first place, it costs something to put a charge or deferred payment account on the books. Estimates by several writers range all the way from $2 to $10 per account.

In view of the fact that it costs money to secure new business, it appears that many accounts accepted by stores must be too small and too seldom used to be profitable—to repay the cost of putting them on the books and the expense of handling them. The few studies that have been made show that on many accounts the average purchases made are very small, and in the case of many other accounts only infrequent use is made.

It would seem that many retailers show too much eagerness to spend money in getting or taking sub-marginal accounts, i.e., accounts which are too small or inactive to be profitable. This may be true not only of charge accounts but of certain classes of deferred payment accounts, like $10 budget plan accounts. There is such a thing as undesirable credit business—a fact which is too often overlooked.

It probably does not occur to the average retailer affected with "Volumitis" that attaining the increased sales he so ardently craves may actually give him less profits than before. But there comes a time in getting charge or deferred payment business when it ceases to be profitable because it is too small, inactive or slow pay. Its very volume defeats its purpose.

In any line of work there is a tendency for those employed to get an occupational superiority complex. We must guard against this tendency to exaggerate the importance of the charge or installment customer and to overlook

the wastes of credit found in the kind of credit management too widely prevailing at present.

What Is a Credit Customer Worth?

Finally, the question arises as to what a credit customer is worth to the store. Various figures have been given as to the amount spent by the average charge customer in different types of stores, ranging from $50 in some shoe stores to several hundred dollars per year in some department stores. The amount spent by a charge customer varies also as to the section of the country.

But the best way to answer the question is to estimate it roughly for your own store. Divide your annual credit sales by the average number of charge customers (to the number of customers on your books at the end of the year, add the number you had at the beginning of the year, and divide by two). This gives you the amount bought during the year by the average customer. The net profit on this amount of sales multiplied by the average number of years in the life of a charge account gives you the value of a charge customer to your store.

However, this is only an average and does not reveal the large number of unprofitable credit accounts due to small or infrequent purchases, short life, slow payment, excessive returns and allowances, and so on. How much can you spend to put a charge or deferred payment account on your books? Where the total collected minus the direct expenses on the account is not equal to the cost of the merchandise, it is evident that the account is *absolutely* unprofitable. Of course, if the applicant for a small account is a regular cash customer of the store, acceptance of the account might be justified if such action is considered necessary to retain the customer's good will.

Very often accounts which can be secured only by offering special premiums, terms, and so forth, never buy enough (or pay promptly enough) to make their acquisition profitable. Accounts which cost little or nothing to get

but which come without special terms or other attractions are usually the most profitable.

It follows from the foregoing that the credit sales department can cooperate with other departments of the store in securing new business, but that there is such a thing as being too eager to secure or accept any and all kinds of charge, installment or budget business.

Steps or Sub-functions in the Major Function of Securing New Business

The performance of the first main function of credit management (Securing New Business) requires the carrying out of the following four main steps or sub-functions: 1. obtaining applications for charge and deferred payment accounts; 2. interviewing the applicant; 3. investigating and analyzing the risk; 4. accepting and declining applications. The remainder of this chapter is devoted to the first of these steps.

Obtaining Applications for Accounts

There are five important principles concerning the activity of obtaining applications for charge and deferred payment accounts in any size of store in any line of retail business. Let us examine these in order.

1. *Formulate your general credit policy.*

Securing applications for accounts may be regarded as beginning with a formulation of the general credit policy to be pursued by the firm. Until this is done there can be no clear cut idea of the kind of applicants to seek nor the sources where they may be found nor the methods to be used in securing applications.

This is true because a firm's general credit policy comprehends not only its terms but its attitudes toward all the other fundamentals of credit operation. Thus, among other things, a store in formulating its general credit policy will decide: whether installment or budget business shall be handled as well as open accounts; whether new business

shall be passively accepted through direct application or shall be actively sought through solicitation; what shall constitute an acceptable risk; which general classes of consumers shall be sold on credit; what the credit terms shall be; what area shall be served on a charge or deferred payment account basis, and what rate of expansion of credit volume is justified.

Those are some of the things contained in a firm's general credit policy. All the various fundamentals upon which credit policy or policies must be formed cannot be mentioned at this point; indeed, they are exactly as numerous and varied as the many credit problems discussed in this text. But the formulation of general credit policy will indicate what groups of people shall constitute the field from which new business may be secured and may also suggest the sources and the methods to employ in securing applications.

2. *Determine your solicitation policy.*

The store may adopt one or the other of two basic policies toward securing new business. The first may be termed the *passive policy* and consists of relying completely upon direct applications coming in as a result of the firm's general advertising and goodwill. This passive policy of letting new credit business arise only from the initiative of consumers and not at the instigation or suggestion of the firm may be pursued for any one of a number of reasons which appear valid to the particular store.

The passive policy.—Thus, some types of stores, a high class jewelry store for example, may feel that advertising that they do business on credit or soliciting credit business in other ways cheapens their reputation. This passive attitude to protect the dignity and standing of the firm is not confined to certain houses in any one type of business, but is frequently found whenever there are a few "high class" houses confronted by many firms handling low price merchandise and pushing credit advertising and account solicitation to limits which constitute an abuse.

Again, a passive attitude toward new charge business may be merely a natural consequence of the stage at which the firm has arrived in its evolution. To make this clear, it should be observed that, as indicated by Kleppner's concept of the "Advertising Spiral," a successful new business normally tends to evolve through the following stages.

The first is the stage of securing acceptance. The new firm is trying to insert itself into the business life of the community and somehow secure enough business to cover expenses and keep going. It may in this stage have the extra job of having to form new habits among consumers for it may be selling a new kind of goods, service, or idea in merchandising or it may be opened in a location to which customers must be attracted from their accustomed routes in buying. In other words, the new enterprise may have both competition to meet and consumer habits to change. This stage may be marked by active solicitation of business including the offering of charge or deferred payment accounts by direct mail, newspaper, radio or other advertising, or other methods.

The second stage is the competitive. The new firm has secured a foothold and now fights to make a profit and expand against its competitors. This stage may be marked by active solicitation of new business, perhaps even more so than the first.

Sooner or later the store tends to move into a third stage of its evolution, that of the established firm. Here it may rest on its oars, so to speak, and competition no longer being so intense, it may adopt a passive attitude toward new business, try to keep the business it has and just grow "slowly, soundly and normally."

The firm may remain in this stage indefinitely or, under the influence of new conditions or new management, it may enter a new competitive stage and try actively to rapidly increase its business. It may even enter a new stage of "securing acceptance" as in the case of a dealer in buggies and wagons beginning to handle automobiles, or a firm selling on open account taking on installment or budget business, and so on.

Again, a passive policy toward solicitation of new charge business may be logically and correctly adopted by a firm because its financial position is such that it cannot take on and finance any more new business than that which just happens to accrue through direct applications; indeed, its financial resources, especially in the case of installment business, may be such that the firm cannot accept all of the new business offered it.

Or, a firm may adopt a passive attitude toward new credit business, adding new accounts very slowly and gradually, because its credit department is not strong and efficiently conducted. Still another reason for a passive policy may be found in the very conservative attitude, which some would call "old timey," on the part of the owners of the store. There are, in brief, a number of perfectly sound reasons why certain firms may logically adopt a passive policy toward securing applications for accounts because of situations peculiar to their business.* Slow expansion is soundest.

The active policy.—During the past generation, however, the trend in retailing has been more and more toward aggressive solicitation of new credit business, and before the outbreak of World War II a decided change in the attitude of retailers toward actively soliciting accounts had become apparent.

Many of the great retailers of the country used to hold that it was unethical and conducive to unusual loss to solicit through the mails and that newspaper advertising of charge or installment privileges was not to be thought of. However, keen competition, the desire for volume, and the modern credit bureau which affords a generally dependable credit check, tend to break down these objections and many of the most exclusive stores now strive for new charge and deferred payment accounts.

Just as some firms because of their particular situation find passivity a valid policy, many stores discover that for

*A number of retail stores reported in response to a survey conducted by the writer in 1936 and 1937 that they did not solicit accounts even by direct mail. From 1939 to 1947, war and postwar conditions constituted a reason for passivity on the part of numerous stores.

them a policy of actively soliciting applications for accounts is both necessary and sound. Financially, they are able to take care of new business at a rate much faster than it comes in when unsolicited. Technically, their credit sales department organization is competent to safely add new accounts at an increased tempo. Moreover, conditions may be such that the difference between profitable and unprofitable operation depends upon a more rapid expansion of credit business.

In regard to active solicitation of applications, an important consideration to keep in mind is the following. The store *knows* the customers it now has because of knowledge based upon its own ledger experience. But in accepting a large number of new charge or deferred payment customers, it must depend upon the ledger experience of others (secured through the credit bureau) which may not be reported upon the same standard. In the straining for large new volume, a store may unconsciously lower its standards for charge or deferred payment accounts.

3. *Analyze your sources of new business.*

The next step, if you have decided to adopt an active policy of soliciting new charge or deferred payment customers, is to carefully consider all of the possible sources where desirable prospects may be found. Then the most fertile sources for your particular store may be selected for cultivation.

It is evident that at any given time any new credit customers secured by a store must come from one or the other of two main groups in the community served: "established consumers" and "new consumers."

The first group consists of: 1. the store's cash customers, and 2. cash or credit customers trading elsewhere. One of the most fruitful fields for securing applications for charge or deferred payment accounts, and one of the easiest to exploit, is presented by the store's own cash customers.*

*Also stores often solicit for charge accounts those who have satisfactorily handled a deferred payment account, and offer their charge customers deferred payment account privileges.

The second group is made up of those cases which have just emerged as independent buying units: new arrivals in the community, marriages, young people reaching the stage of independent purchasing and payment, and the like.

Your own cash customers.—Names of the firm's cash customers become available in a number of ways. They may appear on bank checks given in payment for a purchase, on saleschecks or delivery information, or on packages temporarily left at the store by the customer. Customers may leave their names with data regarding sizes or kinds of goods (as in the case of size and type of shoes, etc.) to be used for card file information, or may leave their names to be called when certain merchandise arrives. In some stores the salespeople introduce themselves and learn the customer's name as a matter of friendliness and salesmanship.

The store may go further and offer a bonus, commission or prize to salespeople or others of the floor personnel for handing in names of cash buyers who later become profitable charge customers. In small stores, salespeople when requested usually will ascertain and turn in cash customers' names merely as a matter of course.

The solicitation of present cash customers by the personnel of the store, especially the sales force, is not without its disadvantages. There are many customers who pay cash by reason of their own preference, and there are others who pay cash by reason of the store's preference. In both instances, and particularly the second, if a credit investigation is made and it is found that the customer is not worthy of credit, then immediately two customers may be lost: the cash patron whose cash business the store did not sufficiently appreciate and the credit patron whom it hoped to get but did not.

It follows that care must be taken that the cash customer is not approached with the definite offer to open an account until her rating is found to be satisfactory, for to refuse an account after having indicated a willingness to open it may mean the loss of a good cash customer together with

her good will for the store. One of the great department stores of the country has undertaken a definite program to develop the business and good will of its cash customers (giving them special identification tokens made by the manufacturers of Charga-Plate,* mailing them the store's Fashion Guide as well as announcements of sales events, and so on) instead of urging them to open credit accounts.

Customers trading elsewhere.—In building up a compilation of consumers trading elsewhere or not known to be cash customers of the firm, many lists may be consulted. Where the local credit bureau publishes a rating book, the names and information thus presented form an excellent source of possible new credit customers. Other lists of names are to be found in telephone and city directories, tax lists and lists of real estate owners, social registers or blue books, and rosters of various clubs, organizations and associations. Sometimes stores catering to the same class of customers but handling different lines of goods exchange their lists of charge customers' names.

Some lists of names are public and readily available to all. To obtain others, like the rosters of some clubs, organizations or associations, may require special effort or may not be possible unless some officer or employee of the firm is a member of the group in question. Often the lists which are most difficult to secure are the most valuable, and an active policy of source development and prospect list building implies the effort and ability on the part of the manager of credit sales to contact all valuable sources.

"New" consumers.—Names of new arrivals in the community may be secured from public utility companies, banks having close connections with the firm, friends, old customers, from items in the newspapers and from other sources. Many credit managers find the field of prospects offered by newcomers extremely valuable, and use every means of covering this field as completely and carefully as possible.

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*The Charga-Plate is discussed on pages 147-150.

News items furnishing the names of newly weds appear in the newspapers and sometimes are published in the bulletins of the local credit bureau. New arrivals and newly weds may prove to be especially good customers for stores in certain lines. Friends or old customers often send young people who have secured jobs and are ready to establish their own accounts to the store or send in their names. News items may also make mention of such prospects.

By solicitation, premiums, reciprocity, or expressions of sincere appreciation, the old credit customers and the other friends of the store may be induced to take a more active interest in sending in names of established customers trading elsewhere, new arrivals, young people or individual members of a family ready for the opening of independent accounts and others who may be prospects.

4. *Build your list of prospects.*

In the above brief discussion of the main groups of consumers and the main sources of names of such customers, no attempt has been made to catalog every possible minor source.

Selecting the sources.—It is to be noted that what may be an excellent source for one retail establishment may prove to be of no value to another store in the same or in a different line of business. For example, shops located in or near college towns and selling women's wear find it profitable to secure lists of women students. Sporting goods houses and men's clothing stores do the same in the case of men students.

After considering all of the possible sources where desirable credit customers may be found, the manager of credit sales must decide upon those sources which are most profitable to develop for his line of business and his particular kind of store and class of clientele.

Selecting the names.—When the sources have been decided upon and the lists of names secured, the work of building a prospect list has just begun. The lists of names must be checked to eliminate those already on the books of the firm or with whom unsatisfactory dealings

have occurred, those living outside of the charge and delivery area or trade zone of the store, and those who would not prove acceptable risks or profitable accounts.

The aim of the whole procedure in building up the list is to construct a hand picked group which will merit long and patient cultivation. Concentrating more effort upon a smaller but choice list of prospects usually is to be preferred to diffusing less effort over a larger but heterogeneous group.

Some believe that it is always advisable to check the credit record of each prospect before any solicitation is made. It is argued that unless this is done there is always the possibility of finding it necessary to decline an account after the store has definitely solicited it. This is embarrassing and certainly does not promote good will. Others feel that it is too expensive to get a credit report on each person before solicitation, and feel that embarrassment in declining a customer who has been solicited can be avoided by having a clause in the solicitation stating that accounts are offered to "acceptable" risks.

Many stores and perhaps all good stores arrange their new account promotions in such a way that the prospect list is asked to "apply for an account." This leaves the store always in a position of being able to decline the account if such circumstance becomes necessary. Sometimes the store's own undesirable former accounts get included in the list in spite of careful checking, but the embarrassment which is occasioned is quickly disposed of when the customer is compelled to "apply" for credit. To deliberately set out to tell a group of people (whose credit has not been checked) that their names have already been put on the books and all they have to do is to "charge it" is not considered to be particularly shrewd business.

The point to be stressed in regard to the subject of using sources for building of prospect lists is that the manager of credit sales should review the sources he is now using to discover: 1. how many possible sources he is overlooking, and 2. how the sources now being used can be worked in a more efficient manner. This leads us to a consideration

of the final step in securing new applications—methods and manner of solicitation.

5. *Decide upon your methods and manner of solicitation.* The methods used in solicitation of charge and deferred payment customers, and the manner in which they are used, depend much upon the line of business and the particular store. It is obvious that there are possibilities here for harm to the store, to the entire line of business, and to the credit structure.

Personal solicitation.—The method of actual solicitation may be personal contacts, letters, or advertisements in newspapers and other media. Some firms use the personal contact method successfully, sending representatives to call upon a list of acceptable risks. In such cases the invitation to open an account is often coupled with the explanation and offer of some special bargain or other opportunity.

New account campaigns in the form of a prize contest among old customers or an employee contest have been used successfully by some stores. A private credit reporting agency in Philadelphia is used by a number of retail firms to personally solicit accounts for them, payment for the service being made upon the basis of accounts actually opened and used.

As to the personal contact method in the sense of salespeople soliciting cash customers whose credit has not been checked, it is generally more satisfactory to limit salespeople to merely obtaining names which may be checked and then, if found to be satisfactory risks, solicited by the credit sales department. Even in the use of salespeople to obtain names much care must be exercised to insure that customers are not annoyed or offended.

Customers who take the initiative and inquire of clerks concerning the opening of an account are, of course, to be sent or conducted by the clerk to the credit division where they make direct application. Often in large stores salespeople are supplied with cards of introduction to the credit sales department, and a shopper making inquiry in regard

to credit is given a card with his name filled in to take with him to the credit office.

Personal solicitation is always appreciated in case of new arrivals in town, when a welcome to the community is extended with a sales talk on the store's service. The solicitors, either male or female, making a call of this kind must be carefully chosen and trained. They must be diplomats; polite, polished and well educated. Sometimes the first letter to a prospect is preceded by a telephone call in which the advantages of a charge account are set forth. Letters follow up this contact.

Soliciting by letter.—Letters constitute an important instrument in every one of the three main phases of successful credit sales department operation: securing new business, controlling the account, and collecting. At every stage of operation, except during the early period of collection procedure (see Chapter XII), many feel that the letters sent out should appear as individual and personal communications rather than mere form letters. It is difficult to exaggerate the importance of individuality in credit letters. It is hard to really spend too much time in constructing them.

Individuality does not require that each letter be entirely different from the next. A great variety of form paragraphs may be developed and used. But it is possible in the case of at least the first letter sent to a newcomer, a newly married couple, or most other prospects to slip in among the form paragraphs a special paragraph which makes the reader feel that the letter was written directly to him.

For example, some managers of credit sales in writing to welcome a newcomer and offer him charge account privileges will mention pleasantly something connected with his experience: the city he came from; the house or section of the city he has located in, especially if it is a desirable home or location; the firm he is connected with; his civic club, and so on. The recipient of such a letter feels that he is being extended a *personal invitation* to open an account by someone who is interested in him.

It is apparent that this technique of pleasantly mentioning some matter which is a part of the reader's life can be expanded and used in writing to a substantial proportion of the whole list of prospects. Even lists of established consumers in the community can be classified in such ways (e.g., occupation, children, club affiliations, sports, etc.) as to permit mention of some important aspect in the life of each class.

Individual and form letters.—The idea of having at least the first letter to a prospective credit customer individually typewritten does not appeal to some credit men because of the expense of this method as contrasted with sending out mimeographed, multigraphed or printed invitations. The former tends to impress the prospect as a personal message. The latter may strike him as being only a general advertisement.

The individually written letter, composed of several form paragraphs and a personal interest paragraph, is the medium for those who choose intensive cultivation or concentrating effort upon a relatively small list. The mimeographed or other type of pure form letter is the instrument for those who elect extensive cultivation, endeavoring to cover a relatively large list at minimum expense. This latter method is obviously not so powerful in its appeal as the former. Such purely form letters ought to be individually signed. This is a distinct help and is not much of a job since the proper official's signature can be appended by clerks.

The grade of paper used in writing letters of solicitation must be of such quality as to fit the class of customers served by the store. It is probably a good idea to use one grade and size of stationery for letters to women and another in the case of men.

Structure and content of the letter.—The body of the first letter of solicitation should be constructed in line with the following fundamentals.

The opening paragraph or paragraphs should be about the prospect and his personal interests and needs—and not

about the firm. This is what is known as the "you attitude." It means writing about the person written to, not about the writer. This attitude can and should be characteristic of form letters as well as individual letters.

The next paragraph mentions the special event, the services, or the seasonable goods now being offered by the firm to meet the needs referred to above. The following paragraph or paragraphs may emphasize the advantages of a credit account and the superiority of the store in quality, service or price appeal.

The closing paragraphs offer the prospect a charge or deferred payment account privilege and invite him to call at the store, or enclose a stamped envelope or a post card for reply. The letter should endeavor to make it easy for the prospect to act as you want him to act.

As an example, the following letter (sent to a pre-checked list) ties in with the prospect's personal interests and needs in connection with the Christmas season:

EXAMPLE OF FIRST LETTER OF SOLICITATION

Feeling that you would, no doubt, find an account in our department store a great convenience at the approach of the Christmas season, we have taken the liberty of placing your name on our list of approved credits so that you may make purchases on charge account without formality.

The courtesy thus extended you are free to use in our establishment in all departments, of which there are 72, including dry goods, house furnishings, men's and women's wearing apparel.

A monthly charge account is a great convenience in many ways. You can order by telephone or by mail, and purchases are concluded at a great saving of time in waiting for change.

If you will kindly fill out the enclosed card and mail it to us, you may charge at once. A statement will be mailed on the first of each month, following the month of purchase, and will become due on the tenth.

It will be a pleasure to serve you.

Very truly yours,

In soliciting charge accounts by letter it is possible to diplomatically emphasize the store's terms without giving offense, and also to stress the fact that the charge account is a store service for the convenience of the customers. The store extends them this courtesy in order to make shopping easier, and enables them to pay their bills once a month. This understanding creates more respect for terms.

Some stores aggressively engaged in building up their open account business employ the opening paragraphs of the letter to appeal directly to the prospect's personal interest by offering him some kind of a bait or premium. For example, the letter may open by telling the prospect that an account has been opened in his name and the sum of one dollar credited to him and stating that no strings are tied to the offer. This practice is frowned upon by the better stores.

The follow-up in solicitation.—Except where the prospect accepts or rejects the offer of a charge or deferred payment account privilege, the first letter of solicitation is only the beginning of a campaign.

Whereas the first letter should be a personal and individual message if possible, succeeding mailings may be regular form letters or advertising material. These follow-up letters should be carefully planned and compose a definite series to be mailed according to a set schedule. After the series of follow-up letters have met with no response, the prospect is dropped completely by some firms while others keep the name on the list for regular mailings of advertising material.

If the prospect list is transferred to a file of three by five cards, the solicitation process is aided considerably. The cards of those who accept or reject and of those whose letters are returned due to non-delivery may be withdrawn from the file. The cards in the file may be kept so that at any time they will show the rating and information on each prospect and just what steps in the solicitation process have been taken in each case.

The following two letters represent a follow-up solicitation undertaken with reference to those prospects who have not responded to the first letter offering the credit privilege. *(See Letter No. 2 on next page.)*

SOLICITATION FOLLOW-UP NO. 1

Do you recall the invitation you received recently to open a charge account? We are happy to renew it, anticipating the pleasure of being of real service to you.

In these days of breath-taking changes, there is no surer way of keeping up with what's what in the world of fashions than by dropping in often and looking over our displays. Daily activities take on new interest when you go about, serene in the confidence that you are correctly dressed for every occasion . . . business, social affairs or travel.

Another service you may enjoy through your account is that offered in our Tea Room on the Mezzanine. It is an entirely delightful place for a business or a social luncheon. Write your name and charge address on the back of your luncheon check and leave it with the cashier just as you would at your Club.

Merely return the enclosed card, filled out and personally signed by each of those who will be using the account, and begin at once to take advantage of a charge service we feel sure will prove a genuine satisfaction to you.

Very truly yours,

Soliciting new accounts by advertising.—Advertising for new credit business may employ any one or more of a large number of media, but the one most generally used and to which we shall restrict our discussion is newspaper advertising.

Credit advertising varies all the way from some stores in certain lines using blatant advertisements which stress easy and unsound credit more than the quality, service or

price of the merchandise offered to the restrained statements in the advertisements of other firms to the effect that "Charge account privileges are available to responsible people." To the latter type of advertising there can be no objection. But how far can solicitation go before it constitutes an abuse? It seems clear that advertisements presenting the advantages of a charge account at a particular store are sound and helpful. But how about "$29.25—only 25 cents down and the rest on easy installments" or "Nothing down—three years to pay" or "Just bring an honest face"?

SOLICITATION FOLLOW-UP NO. 2

Doubtless you appreciate the convenience of charge accounts in general. We wonder if you realize the many advantages an account at Blank's offers you . . . advantages not usually available at department stores.

For instance, consider the time you save by supplying all your needs—even groceries—without having to step outside this one store.

Today, when the smartest advance modes in wearing apparel and accessories . . . in home furnishings . . . in fact, practically everything that contributes to the comfort and convenience of your everyday life, await your selection under one roof, a charge account here is a practical shopping aid of which it will pay you to take full advantage.

In order that you may enjoy the many helpful features of our service, we have arranged an account for you. It is ready for immediate use upon return of the enclosed card, filled out and personally signed by each of those entitled to use your account.

Very truly yours,

To many serious students of the subject such advertising constitutes an abuse of credit, tends to weaken the credit system, and undermines the work of responsible credit men toward educating the consuming public to "guard your

credit as a sacred trust." Advertising of the type quoted is either grossly misleading or indicative of an unsound credit policy.

For example, when down payments are advertised as being insignificant, the consumer responding usually finds that substantially larger down payments are insisted upon, and that he needs more than an honest face or the mere desire to obtain merchandise on credit in order to be able to open a charge account. Where such advertisements are not false but actually reflect the credit policy of the firm, it is obvious to every person possessing a rudimentary knowledge of credit that such lax credit practice is absolutely unsound and flies directly in the face of the tried and tested principles of credit operation.

It is clear, furthermore, that when firms engage in such flamboyant advertising and plainly tell the consuming public in cold print that installment obligations are trifling matters and charge account privileges are to be had for the mere asking, the consuming public is being educated to treat credit obligations in a flippant manner. Yet the need today is to educate the consumer in the seriousness of credit and the sanctity of the credit obligation, and all forces in the community should be preaching this doctrine. The extremists in credit advertising are simply contributing their mite toward undermining certain of the fundamentals upon which the structure of retail credit rests.

Use and abuse of credit advertising.—Those who push credit advertising to the extremes mentioned may argue that the low class of clientele to which they appeal necessitates their policy. But this is hardly a sufficient basis upon which to justify misleading advertising or unsound credit policy. In some cases the credit managers excuse themselves by pointing out that their credit advertising policies are forced upon them against their recommendations and judgment by employers who are falling over themselves to get business by any method whether unethi-

cal or economically unsound or not. All that can be said in regard to this situation is that the duty of educating the employer must rest upon the credit man.

Newspaper advertisements of merchandise or services for sale and containing a solicitation of new credit business should be restrained in such solicitations. Statements such as "Credit privileges available to responsible people," "Credit extended on satisfactory references," and the like are ethical and economically sound. They tend to keep poor risks from wasting the time of the credit office, they produce new applications of the desirable type, and they uphold the dignity of the store.

In brief, whether solicitation of accounts, either through newspaper advertising or by other media, cheapens and harms the store concerned and tends to adversely affect the retail credit structure depends upon how it is used. Like any other factor in retail business, it can be either used or abused. Stores in which credit business is far more important than cash business may naturally experience a tendency to go to the extreme but there are limits of good taste, of ethics, and of sound economics beyond which solicitations should not go. There is undoubtedly a need for more conscientious and conservative credit advertising on the part of many retail stores in many lines. Specifically, it may be stated that advertising of credit terms, or competition in terms, is unethical and unwise and has no place in the policies of the reputable credit store.

The new business solicitation program.—It is the credit manager's task, after having considered and carefully studied the problems referred to in this chapter, to formulate his program for solicitation of new business.

In the actual solicitation of prospects for new charge accounts he may employ one or more of the following methods: personal solicitation, direct mail or advertising. Some stores rely almost entirely upon some one of these methods. However, in many cases it would appear that all three might well be employed: personal contact and direct

mail to concentrate upon a well chosen and select group of prospects; and advertising by newspapers, radio, and other media to cover the general field, the unselected group in which there are many prospects not contained in the prospect list.

In setting up a program for new business solicitation the budget appropriation for new account promotion must be determined. Whether this appropriation may reasonably be increased or decreased in view of the amount of new business desired will depend upon how much the store is willing to spend per customer for new accounts. We have asked, What is a new account worth? The manager of credit sales can determine the value of a new account, or at least the value to the firm of the average account now on its books, merely by tabulating the data from those records. What then seems to be a reasonable proportion of the profit of an average account might be taken as the expense justified in securing a new credit customer.

It must be remembered that a new account is opened with the expectation of its remaining active for months and years. Frequently merchants complain of the cost of securing new business, credit investigation, etc., eating up all the profit and this may be true of profit on the initial purchase, but these expenses do not occur on subsequent purchases. In the sale of merchandise where there is little or no repeat business, such as furnaces, refrigerators, plumbing, etc., a sufficient mark-on should be added to take care of such expenses.

It is necessary for an efficient utilization of the money spent in solicitation that the manager of credit sales keep such records of various methods employed in developing sources of prospects and in actual solicitation that it will be possible to compare the relative expensiveness and profitableness of each method used. Thus will be afforded a sound basis of fact upon which to act in expanding the use of some methods or contracting or discarding the employment of others.

QUESTIONS

1. What are the three fundamental functions of credit management? Must all of these be performed in small as well as in large stores?

2. Why is the function of securing new credit customers necessary? What are the four steps involved in carrying out this function?

3. How would you calculate what a new credit customer is worth to the store?

4. Upon what five principles should the activity of securing applications for charge and deferred payment accounts be based?

5. "There are a number of perfectly sound reasons why certain firms may logically adopt a passive policy toward securing applications for accounts." Is this true? Why or why not?

6. Classify the various sources from which you may secure new credit customers. Suggest appropriate methods for obtaining names from each source.

7. What methods may be used in soliciting new credit customers? Give your opinion of the value of each.

8. Compare the advantages of personalized and form letters in soliciting accounts.

9. "There are limits of good taste, of ethics, and of sound economics beyond which solicitation of accounts by advertising should not go." What, according to your judgment, are these limits? Give examples from your own experience of what you consider to be undesirable advertising solicitation.

10. What considerations should enter into the determination of the size of the appropriation for new account solicitation?

CHAPTER III

INTERVIEWING THE APPLICANT

(Information Required; Staging the Interview)

It would be difficult to exaggerate the importance of the credit interview. It is certain that the real significance of this first personal contact of prospective customer and credit sales department is but imperfectly perceived by many retail credit men.

This is not to imply that the interview is the most important phase of credit sales department operation. Not at all. It is impossible to say that one link of a chain is more important than another. But it is true that credit interviewing is often the weakest link in the department's operation, that it is poorly staged and inefficiently performed, and that it fails to fully achieve the purposes it should fulfill in a considerable number of cases.

What are those purposes? How should the credit interview be staged and performed? These are the questions to which we now turn.

The Functions of the Credit Interview

As a result of active solicitation or direct application, discussed in the preceding chapter, prospective customers approach the credit sales department with a view to opening new charge or deferred payment accounts. What are the objectives of the personal interview* which follows? The main purposes are two in number: 1. to secure information from the applicant, and to do it in such a way as to make a friend for the store; 2. to educate the prospective charge customer to use the credit privilege soundly and satisfactorily in accord with the store policy.

*The credit interview is handled by mail in the case of mail order houses. It may be so conducted in the case of some of a retail store's applicants, but usually it is handled by personal contact. It is with this latter type of interview that we are here concerned.

A discussion of these objectives and how they may be achieved is the subject of this and the following chapter which examine the four salient problems of interviewing: 1. what information should be obtained from the applicant? 2. where and how should the interview be staged and who should conduct it? 3. what is the technique to be employed in interviewing? 4. how is the prospective customer to be educated in the use of his credit?

What Information Should Be Obtained?

Two main types of information may be sought: 1. credit information is absolutely necessary and 2. sales information, or special leads which may be followed up by the sales department, is highly desirable.

The Five Basic Credit Questions

First of all, let us consider the credit information required and why it is necessary. Before an applicant can be extended the privilege of a charge or deferred payment account, the manager of credit sales must secure satisfactory answers to these fundamental questions:

1. Who is he?
2. Where is he?
3. Can he pay as agreed?
4. Will he pay as he agrees?
5. Can he be made to pay?

To adequately answer these five basic credit questions, it is necessary to secure answers to a fairly large number of specific or detailed questions. But it should be clearly understood that all the specific questions that may be asked and all the detailed items of credit information that may be secured from any source are important only because they help to complete the answer to one or more of these five major questions.

The sources of answers to the questions.—The manager of credit sales seeks the answers to his questions primarily from two sources: from the applicant himself in the credit interview, and from outside contacts such as the local

credit bureau, credit men of other houses in the absence of a bureau, private credit rating agencies, or personal investigation.

Information from these outside contacts or special investigation serves to check the information given by the applicant and helps to answer the basic questions we have referred to. In regard to questions 3 and 4, concerning ability and willingness to pay as agreed, such information is especially helpful in showing just how the applicant has in fact paid his bills. It may also indicate whether the applicant may be made to pay (question 5) if that should become necessary. This subject of using information from outside contacts for checking the credit risk is examined in detail in Chapter V. In this chapter discussion of information is limited to that secured from the prospect in the personal interview.

Information required from applicant.—What information is to be requested of the applicant during the credit interview? The interviewer is guided in his conversational questioning by the "application form" on which are indicated the various specific bits of information required, that is, the detailed questions to be answered. As far as credit information purposes are concerned, the application form should contain only those specific questions which help to answer one or the other of the five basic credit questions. But it should include every important specific question which does help toward this end. An illustration of the standard application form of the National Retail Credit Association is shown on page 56.

The necessity of getting full information upon all the important questions (at least upon all those questions generally appearing upon the application forms used by the merchants of a community) deserves to be emphasized. Often a customer is called back to a store for a second interview, which may be decidedly annoying, simply because the interviewer failed to secure data upon all the significant points during the first visit.

Too many credit sales departments attempt to analyze and to accept or decline accounts with only half of the information necessary with the result that the retail credit structure of the store and of the community in general is undermined. An old saying among credit men is "an account well opened is half collected." Slowness of authorization, unnecessary work for the collection department, and increased bad debts result from failure to secure complete information.

Also, failure to secure adequate information during the interview often results in increased work for the credit bureau and in unjustified criticism of the bureau's services. Sometimes the bureau is criticized because it furnishes an incomplete report when the criticism should be aimed at the credit men who failed to obtain complete information in interviewing the applicants and thus furnished the bureau with incomplete data.

In such cases, if the bureau is to produce a complete report it is necessary for it to personally interview the applicant for the purpose of gathering the facts which its members, the credit sales departments of the local stores, have failed to request in their interviews with the applicant. When the credit bureau interviews such applicants it is found that they very rarely object to the questions asked and often inquire why the store did not ask them these questions, stating that they would have gladly given the information.

Let us see what these specific or detailed questions should be and how each of them helps toward answering some one or more of the five fundamental questions.

The Question of the Applicant's Identity

First of all, the manager of credit sales wishes to determine the identity and the present location of the applicant so that errors and confusion may be avoided, that the customer may be served satisfactorily, and that business relations with him may be conducted efficiently. That is why the interviewer wishes to discover at the outset just "who is he?" and exactly "where is he?"

Who is he?—To answer this question, the application form should request the following data: 1. Mr., Mrs., or Miss; 2. first name in full; 3. husband's or wife's name with first name in full; 4. parent's, guardian's or guarantor's name with first name in full in case the applicant is a minor. These questions serve to identify the applicant and prevent confusing accounts having the same family name and initials which might cause considerable trouble or even loss.

The necessity for having complete full names should be stressed for several reasons. There are many similar names with the same initials and even the same first name.* This may be confusing when information is sought from the bureau, store references, or the employer; also further along in the situation, it is necessary to have the full name when suit is brought.

It should not be necessary to point out that the interviewer should be sure that he has all names spelled correctly. There are many names which sound the same but are spelled differently and unless the exact spelling is ascertained it may be impossible to identify the applicant when the credit bureau runs through its files or when information is requested from references. Securing the husband's or wife's name helps also toward solving the question of willingness to pay as will be indicated presently.

Where is he?—The second main question "where is he?" calls for the present residential address (also the previous address if he has lived at the present address less than two years) and telephone number and the business address

*An illustration of the resultant possibilities for confusion is found in a newspaper story headed "Blanks All Mixed Up in Arrest of Prowler" [the name Blank is substituted in this quotation for the real family name mentioned in the news item] which reads as follows:

> "Malden, Mass., Oct. 9 (INS).—Middle initials saved the day today on the police blotter in a 'quadruple play' among four John Blanks.
>
> "It went like this: Desk Signal Officer John F. Blank received a telephone call there was a strange man trying to get into a house. He notified Sergt. John T. Blank, in charge of the precinct station, who called Patrolman John B. Blank, who arrested John M. Blank for disturbance of the peace."

and telephone number of the applicant. These questions are important in completing identification and in finding out where deliveries of goods should be made, where the bills or statements are to be sent, and just where the customer can be contacted at any time.

Whether bills are to be sent to the residence or office is very necessary to determine. Telephone numbers are important for frequently it happens that the store wishes to communicate immediately with a customer. The directory may show no telephone under his name. Yet often he could be reached if the interviewer had secured the telephone number of the place where he lives (he may be boarding or rooming) or the number of the business telephone.

Finally, the full names of persons authorized to buy on the prospective account should be secured so that the store may be protected in case the account is accepted. And it should be noted on the application by whom (self, husband, wife, relative, son, etc.) and how (by mail, telephone, personal call, solicitation, etc.) the account was opened.

The Question of Ability to Pay as Agreed

Now we come to the questions of greatest importance, those of ability and willingness to pay. What specific questions may be asked to discover the answer to the question: Can he pay as he agrees? To answer this, it is necessary to get some idea of the prospect's earning capacity and capital on the one hand and his obligations on the other..

What is his income?—In order to find out from the applicant about his earning capacity, the application form should call for information concerning his trade or occupation, the name of the concern he works for, his exact position, and how long he has been in the employ of the firm. If he has been in his present job or place of employment a relatively short time, information concerning his previous connection and job is necessary.

This information enables an experienced interviewer to estimate pretty accurately what the applicant's wages or

salary* is and whether this earning capacity will probably continue. For example, if the prospect is a bookkeeper in a shoe store, the experienced credit man has long ago discovered just about what salary is generally paid for such a job, and if the applicant has held his position for several years, the manager of credit sales may feel he is justified in expecting this earning capacity to continue. Sometimes it is possible to obtain the income or salary figures directly from the applicant without offense. Especially is this true of single young women.

In cases where both husband and wife (or children) are employed, data concerning the occupation, firm, position, and length of service of each should be secured.

What is his capital position?—Finding out whether the applicant has any capital also may be helpful in deciding whether he *can* pay as he agrees. If he owns property clear or has a substantial equity, his ability to pay may be helped thereby, while if he owns property subject to heavy mortgages or other obligations, his paying ability will be negatively affected.† In either case it is necessary

*In installment houses it seems to be the practice to ask the applicant outright what the salary is. In the larger department stores and better furniture houses, this is estimated from the nature of the job given as most credit men in a given town are pretty well posted on the approximate salary or wages received.

If the bill runs to a large amount it may be advisable to make some inquiries in this direction: "Now you know this will cost you $50.00 a month and that is a pretty steep payment for twelve months." The customer may reveal the fact that while the husband's salary is not so big there are three or four children in the family working; the interviewer may get the names of the children and where they are employed and complete a transaction that might otherwise be declined.

†In the lower priced houses, say up to ten thousand dollars, the cost of running a house may be only slightly higher than renting and ownership would be an indication of stability on the part of the applicant. In the more expensive houses, ten to twenty-five thousand dollars, or more, the amount of the mortgage is a very definite factor and too frequently the property is a liability instead of an asset, for at the first ill-turn of circumstances the owner may be found out of his house. At any rate, the cost of insurance, taxes, interest and amortization of principal represents a very substantial outlay each year.

Also a great many houses are bought on land contract or its equivalent in which case the purchaser has no equity until the house is paid for, and if he should get in arrears in only one payment, it is possible for his house to be taken away from him.

(Continued on facing page)

to ascertain the prospect's capital position. Therefore, the application form usually calls for information as to whether the applicant owns, is buying, rents, rooms (or boards), or lives with parents.

The ownership of a home unencumbered or of a large equity in a home may indicate, as stated, that the prospective customer has capital to back up his ability to pay. Where the applicant rents, rooms, or if he lives with parents, the credit man can judge how the expense incurred for shelter compares with earning capacity. For example, is the family renting in a district or an apartment too expensive for the income received? Where the applicant is unmarried and is living with parents, the expenses are generally less than where he or she rooms or boards away from home.

Data concerning the ownership of other property such as real estate, business property, or automobiles, and the encumbrances in each case may also be secured from the applicant to ascertain his capital position. The question as to whether the person already *owns* his home, automobile or other property or is *still paying on* it is extremely important, and an answer to it must be obtained. The man who already owns a piece of property outright will naturally rank higher in ability to pay retail credit obligations, other things being equal, than the person who is still paying on a home or other property.

Bank references.—What other data may be secured to indicate the capital of the prospective customer? Application forms practically always call for information as to whether the applicant has either a checking account or a savings account, or both, and where he banks. This information is generally of little value in indicating the capital of the would-be customer. Only when it is possible

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Where the applicant's property is located is important. If he lives in a very cheap or morally undesirable neighborhood, although his property might be good, not always, but in many cases, this would be found against him from a credit point of view.

for the credit interviewer to assure himself of the size of the balance and how long this balance has been maintained can savings or checking account information be of any real value in indicating the applicant's capital.

Few banks will give any information on savings accounts except on an order presented by the customer. In the case of checking accounts, too frequently they represent money in and money out and have no credit value. Information on bank accounts is important, however, in that it is one more piece of identification for the customer in the case of a questionable transaction; or if a customer should want to cash a check, it would be advantageous to know where the customer does his banking. Also, while ascertaining the mere fact that a bank account is possessed contributes nothing toward answering the question, Can he pay as he agrees? it may possibly indicate that the applicant has a tendency toward budgeting and thrift and thus suggest something toward estimating his character or willingness to pay as agreed.

Conceivably the application blank might call for information on other forms of capital than those we have mentioned, which are those included in most application forms. For example, the applicant might be asked regarding his possession of securities and life insurance and the amounts held. This is now very often done by the credit managers of commercial banks, industrial banks, personal finance companies and other institutions.

In leaving the subject of the capital position of the prospect, it is well to remark that in retail credit work, a customer's ability to pay as agreed is perhaps based more on his earning power than on his capital. Retail credit obligations are generally expected to be met out of current income. Yet it is true that the capital position of the customer may be such as to affect either positively or adversely his current income. Indeed, in some cases the net capital position may be of outstanding importance in judging ability to pay, for at one extreme it may be so strong as to give the applicant an independent income (perhaps all

of his income) while on the other hand it may be so weak as to mean that he is overburdened with debt.

What are his expenses and obligations?—To determine whether the applicant can pay as he agrees, information must be sought not only on income and capital but on expenses and obligations. As indicated, expenses for shelter or board may be suggested by the applicant's address and his response to the question whether he owns, is buying, rents, rooms, or lives with parents. Other aspects of the applicant's expenses and obligations may be revealed by questions regarding number of children, children in school or working, other persons supported, and the like.

The extent to which his income is at present tied up in debts to other merchants can be only partly revealed in a credit report from the local credit bureau or private credit rating agency, because the experience of all of the applicant's creditors is not generally secured. The tendency for customers to obligate themselves more and more under deferred payment contracts makes it more important to try to ascertain the applicant's total current indebtedness, and emphasizes the need for all kinds of granters of consumer credit to pool their information in a central credit bureau so as to make it possible to get a complete picture of his obligations.

The Question of Willingness to Pay as Agreed

Not only must the new credit customer have sufficient capacity and capital, as measured against his expenses and obligations, so that he *can* pay promptly, but he must also be *willing* to pay as agreed. In short, he must have character. What specific questions may be asked by the interviewer to throw light upon the answer to the question, Will he pay as agreed?

Whose willingness?—It is of course true that when the manager of credit sales is analyzing the risk (see Chapter V), he will usually secure a credit report from the local bureau or other source which, by giving the experience of a number of retail firms with the applicant, will suggest

both his ability and his willingness to pay promptly.* However, the interviewer may secure a number of items of information directly from the applicant helpful in indicating whether the latter is willing and can be kept willing to pay according to the terms of the store.

To begin with, securing the "husband's or wife's name; first name in full" is very important in this connection. Apparently most of the accounts in retail trade are opened by wives, and the information given by them refers mainly to indications of the husband's capacity and capital or ability to pay. But how about the husband's willingness? Since it appears that according to court decisions the husband in many states must be notified of an account opened by his wife (even though she uses his name specifically as, for example, Mrs. John A. Smith) if he is to be held legally responsible, the securing of the husband's correct name and address for the mailing of a notification (see page 122) is necessary so that the manager of credit sales may discover whether the husband is willing to stand for the account opened by his wife.

There are cases, of course, where the wife herself is financially responsible and a satisfactory risk; and there are cases where the wife possesses the capacity and capital to pay rather than the husband. Although it is not necessary in many states, in those states where the laws make it effective, it is generally considered a good policy to have all accounts of married applicants accepted and carried jointly as "Mr. and Mrs."

Minors.—Somewhat analogous to the foregoing are accounts of minors. The interviewer must ascertain the correct age of persons whom he suspects are minors. If the applicant is not of legal age, the application form should

*Application forms generally ask for several "business references" or stores where the applicant's credit is already established. Such information is of little value in judging the ability or willingness of the prospective customer to pay his bills promptly even if the manager of credit sales chooses not to use his credit bureau for a report and seeks direct ledger experience from the references given. This is because the applicant naturally tends to name only those stores where his obligations have been satisfactorily met and to forget to mention the others which would be shown on a report from the bureau.

call for the names and addresses of the parents, guardian, or guarantor so that the account may be approved or guaranteed before it is opened to use. Some application forms have a space designated for the signature of the person who guarantees the account.

In the case of minors, the detailed questions concerning capacity and capital, as well as those having to do with willingness, generally center upon the parents, guardian, or guarantor rather than the minor himself. It is true that as far as ability to pay is concerned, many times the minor is so situated that he is perfectly *able* to pay. But if he isn't *willing,* the manager of credit sales is in a difficult position unless he has obtained the name and address of a responsible person and secured approval or a written guaranty from the latter in regard to the minor's account.

Right along this line of seeking information about the willingness of the person who is going to pay the bills or stand back of the account, it is to be noted that the interviewer should ascertain from the applicant just who are the persons besides the applicant who are to be authorized to buy on the account. This often saves a great deal of confusion, delay, and trouble.

The interviewer should inquire how long the applicant has been living at his present address. If it is less than two years, previous addresses and length of time at each should be requested. This information is helpful in enabling the credit bureau, or other outside contact when called on for a report, to easily identify a customer who has recently moved, and if the information shows very frequent change of address it may suggest to the interviewer that the applicant's character or willingness to pay be more closely scrutinized.

Forestalling skips.—Finally, certain questions should be asked for the purpose of tracing the prospect who "skips" and keeping him willing to pay or at least keeping him reminded of his obligation and within reach of the credit office.

Examples of such questions are the following: the names and addresses of the parents in the case of a young applicant (under 25 years of age) living away from home—many of these people change their living quarters frequently; the lodge or club to which the applicant belongs; names and addresses of near relatives; names and addresses of personal references;* church attended; address of home office if applicant is employed at a branch of some concern; life insurance carried, and in what companies.†

Such questions reveal information which is of real value to the credit man in tracing customers who move or "skip out" and manifest their unwillingness to pay by not informing the store of their new address. Some stores go farther than indicated by these questions in endeavoring to be sure of keeping track of the new customer. The application form may ask for information to be entered concerning the color of the prospect's eyes and hair, his height and weight, and distinguishing marks. One credit man in a retail jewelry firm has used for some years an ingenious arrangement to take a picture of the applicant unknown to the latter. And in 1938 a special automatic camera ("Photecto") for this purpose was placed on the market (see page 190).

The Question of Making the Customer Pay

The data secured in answer to the question of ability to pay as agreed will indicate whether the applicant can be made to pay if this becomes necessary. For this information indicates the possibility of attaching wages or property or using other legal means to enforce payment.

*Personal references are sought not primarily for information as to the applicant's character, or willingness to pay his debts, but to aid in tracing him if he skips. As far as willingness to pay is concerned, personal references can at the most only substantiate other information secured by the manager of credit sales since the applicant quite understandably gives as references only those people who will speak well of him.

†Recently there has been some tendency, particularly in the case of installment accounts, to inquire concerning the amount of life insurance carried by the applicant, the numbers of the policies, and the companies in which they are held. This is mainly done for the purpose of tracing, but the information frequently proves valuable in case of sudden death while the account is owing.

Conditional sales contracts or chattel mortgages offer protection in the case of installment selling if the customers cannot be made to pay.

Other Information to Be Secured in the Interview

In the case of many retail establishments, the interviewer is expected to secure not only credit information by means of questions of the type thus far discussed, but also certain data for use of the sales department.

For example, the credit sales department interviewer of a department store or an electric power company having a domestic appliance department may inquire whether the applicant possesses a radio, an electric washing machine, refrigerator or range. Sometimes the application form asks for the name of the newspaper read by the applicant so as to check the store's advertising, or it may request him to indicate specifically what medium led him to favor the firm with his patronage.

Content of the Application Form

Now we have reached the point where we can summarize concerning some fundamentals in regard to the application form. A number of questions naturally arise in the mind of one who is considering the construction or adoption of an application form for actual use. For example, what should be the specific questions called for in an application form to be used by a particular store?

In answer to this, it should be observed that our preceding discussion of the information required in the credit interview should not be taken to imply that all of the specific questions we have treated are to be called for in the application form that is adopted by a store.

Our discussion was intended to emphasize the fact that the fundamental questions on which the credit interviewer needs information are the identity and location of the prospective customer and his ability and willingness to pay, and that all of the specific questions which may be called for in an application form are important only to the extent that

they help to answer one or more of these fundamental questions. We have tried, in brief, to give the credit sales department employee a clearer comprehension of the real meaning of the application form and the questions called for in the credit interview, and to indicate to the manager of credit sales how to explain clearly the purpose and significance of the application form and credit interview questions to the assistants he may be called upon to train as credit interviewers.

Questions to be covered.—There is no one "perfect" application form for all stores. There is no one set of questions which every retail credit sales department will find best. It is a fact, though, that application forms are pretty well standardized. There are some variations in regard to certain items due to the particular needs of certain stores or certain lines of business or different state and local requirements.

The point to be stressed here is that the manager of credit sales should carefully consider all of the various detailed questions which help toward answering the five fundamental questions in the case of his particular store. After critically examining them, he should select those which are of definite value and see that they are required in his application form, discarding all others to save time and effort. Stores doing an installment credit business will tend to require more special questions in their application forms than is generally true of establishments confining themselves to open account business.

Finally, in regard to the number and nature of specific questions called for on retail credit application forms, it should be remarked that the trend is apparently toward fewer and more elementary questions on the part of a great many firms. In many cases it seems that the tendency is to ask but a few questions and these are concerned mainly with the names and addresses.

Perhaps this means that such firms are relying more and more upon their local credit bureaus for the fundamental information necessary to answer the great questions of

ability and willingness to pay. But it should be emphasized that it is impossible to get too much information regarding a credit customer. Millions of dollars have been charged to Profit and Loss as uncollectible because a credit man or woman minimized the necessity of securing complete information.

Other requirements.—After the manager of credit sales has determined upon the specific credit information to be required by his application form, the questions requesting information to be secured for the sales department, if such questions are to be used, are decided. The application form will also contain spaces for a report on the prospect from the local credit bureau, for entering the "limit of credit" assigned to the applicant, for the signature of the prospective customer, and perhaps a space for the signature of a guarantor, if such is needed, for the applicant.

Just above the space for the applicant's signature should be printed some such statement as follows: "I certify that the above statements are true, and if my application is accepted I agree to pay my account in full on or before the tenth of the month following the date of the purchase." The terms of any particular store may differ from those indicated but at any rate some statement of terms should appear above the space reserved for the applicant's signature.* Furthermore, it is recommended that the type used in printing the statement be larger and heavier than the type generally now used on application forms. It is very desirable to impress the credit terms in this way upon the applicant as he is affixing his signature to the form.

*The statement on the application card used by F. W. Walter, Credit Manager, Bailey Department Stores, Cleveland, Ohio, reads, "In signing this application, I, We, acknowledge receiving explanation of terms of payment under which credit is to be extended and agree to make payments accordingly for all merchandise charged on this account," and makes all persons signing the application responsible for any credit given on the account. This does away with the necessity of guarantee forms and makes it possible for the legal department to switch the legal responsibility for purchases to anybody signing the card. It also serves to acknowledge the terms under which the credit was given.

APPLICATION FOR CREDIT

ADOPTED BY AND FOR MEMBERS OF THE

NATIONAL RETAIL CREDIT ASSOCIATION

NUMBER ____________ DATE ____________

FULL NAME (SURNAME FIRST)	FULL GIVEN NAME	INITIAL	AGE	GIVEN NAME HUSBAND—WIFE'S MAIDEN NAME

RESIDENCE	MAIL ADDRESS	TELEPHONE	HOW LONG
FORMER ADDRESS			HOW LONG
BUSINESS OR OCCUPATION	BY WHOM EMPLOYED	BUS. ADDRESS	HOW LONG
FORMER BUSINESS OR OCCUPATION	BY WHOM EMPLOYED	BUS. ADDRESS	HOW LONG

WIFE OR HUSBAND EMPLOYED?	CAPACITY	BY WHOM	
OWN REAL ESTATE	(GIVE LOCATION)	MORTGAGED TO	AMOUNT $

RENT	OWNER	MONTHLY RENTAL	CHILDREN	
FURN. APARTMENT? UNFURN. APARTMENT? RESIDENCE?			AT HOME	EMPLOYED

NAME OF NEAREST RELATIVE AND RELATIONSHIP (OTHER THAN HUSBAND OR WIFE) ADDRESS

PERSONAL REFERENCE

BANK (NAME OF BANK) (CHECKING) (SAVING) BRANCH

LIFE INSURANCE	NAME OF INSURANCE CO.	APPROX. INCOME
$		$ PER

TRADE REFERENCES

FIRM OR STORE	KIND OF MDSE. BOUGHT	ACCOUNT IS NOW OPEN	DATE PAID

LIST ON REVERSE SIDE OF THIS APPLICATION ANY UNPAID BALANCES ON INSTALLMENT ACCOUNTS AND MONTHLY PAYMENTS THEREON.

THE ABOVE INFORMATION IS FOR THE PURPOSE OF OBTAINING CREDIT, AND IS WARRANTED TO BE TRUE. I AGREE TO PAY ALL BILLS UPON RECEIPT OF STATEMENT OR AS OTHERWISE EXPRESSLY AGREED.

SPECIAL TERMS IF ANY.

SIGNATURE ____________

AMOUNT CREDIT	APPROVED
$	

PRINTED IN U.S.A.

FIG. 1. STANDARD APPLICATION FORM RECOMMENDED BY N. R. C. A.

Lastly, the application form may contain a space for the impressions of the interviewer—or the back of the form may be used for this purpose. First impressions are, of course, often misleading and it is difficult or impossible to estimate correctly the applicant's character in a short interview. Nevertheless, while most impressions may be neither positive nor negative, the interviewer will sometimes get a very definite impression which may prove valuable if recorded. For example, the prospective customer may strike him very forcibly as being "shifty," "evasive," "argumentative," "seedy appearance," "flashy," "wife looks as if she might be extravagant," and the like.

Types of application forms.—The application blank may be made in the form of a card. When the account is finally accepted, these cards, which provide for a four- to eight-year skeleton record of balances and cash payments, may be placed in the authorizer's files for the use of the authorizing, reference and collection departments. On the other hand, the form may be on paper which makes it possible to make carbon copies easily at the time the application is filled out and signed. Such carbon copies may be utilized by sending one to the local credit bureau and another to the store's follow-up file so that after a short period of time new accounts may be systematically checked to see how much they are being used and whether more business should be built up from them.

If the application is for an installment account the chattel mortgage or conditional sales agreement may be made a part of the application form. The application proper may be on one side of the form and the contract on the other, or both may be on one side of the sheet. Of course, this practice renders it necessary to make several copies whenever it is desired to record the agreement, a difficulty which is avoided when the application and the contract are on separate sheets.

Other papers besides the application form may need to be filled out, for example, guaranty form, promissory notes, etc.; receipts or financial statements are necessary in various cases to secure the risk.

Where and How Should the Interview Be Staged and Conducted?

Staging the Interview

Having completed our study of the information to be obtained, we are ready to consider the second problem in interviewing: Where should the interview be staged and who should conduct it?

It is well to remind ourselves here that, as stated at the beginning of this chapter, the first purpose of credit interviewing is "to secure information from the applicant and to do it in such a way as to make him a friend of the store." Now, if we wish to stage the interview so as to produce an atmosphere which will assist in getting full information easily and in impressing the prospective customer favorably with the store, careful attention should be given to the arrangement of the place where the interview is held.

The arrangement should be such as to secure privacy, comfort, and promptness in interviewing the applicant. The place of interview should be furnished in keeping with the general standards of the store. It is decidedly worth while to briefly discuss these aspects of good staging of credit interviews.

Desirability of privacy.—To appreciate the importance of these factors, it is only necessary for us to put ourselves in the place of the prospective customer. He or she may be nervous or timid, may be fatigued from shopping about town or tired from spending much time in selecting merchandise in the store where application for an account is now to be made, may be naturally somewhat reticent or stubborn about being quizzed on "private affairs," may be feeling irritable and in no mood for the "formalities" and "inconveniences" of opening an account—the situation needs no further illustration. The credit interviewer is faced with a real problem in handling human nature. The necessity of privacy, comfort, promptness, and satisfactory surroundings in staging the handling of this problem would seem obvious.

Yet one is struck by the relatively small proportion of retail firms having any private room or place for credit interviewing. Often the prospective customer stands outside a counter, railing or partition and talks to the credit man inside. But no person would prefer to discuss such personal affairs as his credit in public. He doesn't like to be held off, stood up and scrutinized coldly as if he were a reformed criminal begging to be given a chance.

Sometimes, especially in the smaller concerns, it is impossible to provide a credit interviewing room or to use a part of the credit office itself for taking applications because the store is too crowded to allow it. However, even in case a store has adequate space, privacy is too frequently not provided. Thus, where the credit man has a desk in the general office and could have applicants come in and sit at a chair by his desk, more often than not interviews are conducted across the railing. One is forced to conclude that store owners do not provide credit sales departments with private places for interviewing fundamentally because the credit manager fails to realize the importance of privacy and therefore does not request it or insist upon it.

Credit men, as well as store owners, have been slow to see the value of privacy in securing full information easily, in impressing the applicant with the formality and seriousness of the transaction, in impressing him favorably with the store, and in providing a quiet and appropriate place for educating the prospective customer in sound use of his credit.

Value of promptness and comfort.—The applicant should be interviewed promptly and not forced to the inconvenience of a long wait. This means that in one-man credit offices, the manager should give the applicant precedence over other work and in larger offices assistants should be trained to help out the regular credit interviewers when necessary. Since this is the customer's first contact with the non-selling or office-side of the business, every effort should be made to give the proper impression of courteous,

systematic procedure and accuracy, especially to women who will now be dealing with pieces of paper and not people.

While waiting, applicants should be provided with satisfactory seats and during the interview they should be seated in comfortable chairs. There is often a tendency for applicants to want to talk as little as possible and to get away without going through "all the formalities and red tape," as they regard the interview. But when the applicant is shown the courtesy of being offered a comfortable chair she is disarmed and made to feel like talking freely and fully.

What about the furnishing and general appearance of the place of interview? It is to be recalled that it is important to create the correct atmosphere if the purposes of the interview are to be completely achieved. Therefore, some attention must be paid to the appearance of the place of interview whether it is a special room or a part of the credit office itself. Unless interviewing is done across the counter something can be done to create the right impression. (A good credit office lay-out is illustrated on page 309.)

Importance of furnishings.—Too many rooms used for this personal contact with the prospective customer are depressing or at least they are certainly not inviting. A room or space in an office for interviewing should be of adequate size and it ought to contain hospitable chairs for the applicants so that they may not be left standing as is so often the case in small and medium size stores. There should be at least two chairs in every interviewing room because customers seem to travel in pairs. Otherwise, if the second person is a child, it will sit on the desk and play with the creditman's ink-well and muss things up. If there is a friend or neighbor, she will be standing up and injecting herself into the picture to an annoying degree.

The place can be clean, painted or finished in attractive color, and perhaps ornamented with a picture or other decoration. The furniture can be neat and kept painted or polished and in good repair. The interviewer's name

should be shown on a name plate and the membership signs of the local and national retail credit associations should be prominently displayed. A placard or sign bearing plainly the credit terms of the store should be placed where the applicant cannot help but thoroughly study it. Too many credit offices where interviews take place present a bedraggled, run down and uninviting appearance. This is certainly unfortunate in view of the importance of creating the right atmosphere for successful credit interviewing.

Who Should Conduct the Interview?

The question as to the place where applications are taken and interviewing is conducted is of course bound up with the question of who shall perform this function of interviewing prospective credit customers.

Use of salespeople.—We have implied previously that generally it is preferable for the interviewing to be done by the credit sales department. But this not always practiced, especially in the case of some of the larger retail stores where salespeople, section managers, or floormen take applications. The main reason for this practice in some of the big stores is to save the applicant the inconvenience of making a trip to the credit office. This is an advantage but it should be noted that much careful arrangement, training and supervision is required unless it is to be more than offset by disadvantages. The difficulties encountered merit some consideration.

It may be suggested, in passing, that the taking of applications by salesmen or others of the floor personnel may be just one aspect of the tendency on the part of an appreciable proportion of retail stores to regard the application process as a hastily treated minor matter, securing very little data directly from the applicant, and relying almost completely upon a report from the local bureau for the information needed to accept or reject the application.

This might well be expected to result from the growing efficiency and increasing importance of the local credit bureaus. But it should be remembered here that credit in-

terviewing cannot be abbreviated in such a manner without sacrificing certain of its valuable purposes: sizing up the prospect personally and getting clear first hand impressions, "selling him the store," and educating him in the seriousness of the credit obligation and the sound use of his account.

Difference between sales and credit viewpoints.—Should salespeople or floormen take applications and conduct interviews? The sales department and the credit sales department have in some respects similar duties to perform. Both should strive to treat customers courteously, to "sell the store," to build more business, and so on. But at bottom they have essentially different specialized functions to perform. In the last analysis, the one outstanding purpose of the sales department is to *make sales* while the basic function of the credit sales department is to *protect the accounts receivable.*

It might be said roughly that, with the credit sales department, getting accurate and complete information and educating the applicant in sound use of credit is of first importance while making the sale is secondary, and that, with the sales department, the position of these two objectives just naturally tends to be reversed.

The tendency, thus, may be for the representatives of the sales department to take the easiest route in dealing with a matter not directly important to it. Salespeople undoubtedly can take applications in the sense of getting answers to questions, but they may not be as competent and alert as a credit man in watching for and sizing-up certain credit signals which should call for additional questions, and they may not be as competent in educating the prospect in the seriousness of the credit privilege.

The retail customer is notoriously inclined to be unreasonable in his attitude and to demand extremes in consideration and services from the store, while in return he too generally feels that as long as he intends to pay sometime and somehow the store should feel grateful and allow him unlimited liberties. Thus, it is all too easy for him to

catch the impression from salespeople that the firm is eager to do anything and everything to secure his patronage.

Balancing the applicant's impression.—This impression should be balanced or corrected by an interview with the credit end of the business to lead the prospect to realize that although the store is eager to sell, it is firm in collecting amounts due at the times stipulated. An interview in the privacy of the credit office can create the atmosphere needed. It is questionable whether the correct credit interview atmosphere of *cordiality plus seriousness* can easily be secured when applications are taken by salespeople, floormen or section managers in the midst of their duties.

It would be probably going too far to claim that "It is just as impractical for the sales department to discuss credit with an applicant as it is for the credit sales department to attempt to sell merchandise." But it is obvious that the simplest way to secure the full benefits of specialization is, wherever possible, to let each specialized department take care of the particular type of work which it is peculiarly fitted for and in which it is vitally interested.

Managers of credit sales generally feel that it is inadvisable to conduct credit transactions anywhere but in the credit sales department, that the taking of applications by salesmen or others not employees of the credit office should be discouraged; that inasmuch as the control of the account is in the hands of the credit sales department, that department should have the opportunity of opening it. Some feel that as soon as salesmen or floor managers have anything to do with applications, the tendency is for the customers to attempt to go to them regarding collection matters, a practice which could easily destroy the credit division's efficiency.

As to inconveniencing the customer, in these days of modern, fast elevators it does not take long to send a customer from any floor in the house to the credit office. The only time when it should be necessary to take an application on the sales floor would be in the case of a seeming

exception, for example, where a customer is well-known in town and has accounts in all the other stores and just won't bother going to the credit office. Or sometimes it may be necessary for a representative of the credit division to go down to the floor and take an application in the case of older persons or those apparently physically unable to withstand the ride in the elevator for another floor or two.

Responsibility of the manager of credit sales.—The manager of credit sales, himself, is by training naturally better fitted to take applications than anyone else in the store. If he is too busy with other aspects of credit work to do this, then those who interview applicants should be trained by him and be directly responsible to him as far as this function is concerned. This means that if salespeople, floormen or section managers are to be used to take applications they should be trained and closely supervised by, and responsible to, the credit sales department in their work of interviewing the applicants for accounts.* In some large stores credit interviewers, who are employees of the credit office and not members of the sales force, are stationed in the home furnishings, women's apparel, men's apparel or other departments for convenience to customers and to relieve congestion at the credit office. The credit interviewers become familiar with the merchandise and often help the salespersons to build up the sale where the customer's credit position justifies it. Each interviewer's desk is connected by a direct telephone line with the credit office.

Qualifications of the Interviewer

The task of taking applications and interviewing calls for a person competently trained for the job. It cannot be satisfactorily discharged by a novice. A store can make no more unfortunate mistake than to allow its prospective credit customers to be handled by an unspecialized employee. In small offices the manager of credit sales should

*In the case of selling certain electrical appliances on installments, some stores have allowed manufacturers' salesmen to take applications in house-to-house selling and have experienced difficulties in many instances.

take the applications himself since the interview is such an important step in credit sales department operation. In larger offices the manager of credit sales should be extremely careful in training his assistants or the other persons who are to take applications.

The credit interviewer need not be an old person but he must be mature in judgment and in the technique of pleasantly handling people. Further, he must be trained to see the reason for, and the meaning of, his job: 1. how certain knowledge is needed; 2. why that information is needed; and 3. just what specific questions will produce that information.

It is notorious that great numbers of clerks in all lines of business do the same job over and over for years and yet have no comprehension of what it is all about. The tendency is to learn the job by "picking it up" rather than by studying it, to go through the motions and do the job mechanically, never realizing the sense and meaning of it.

Whether competent credit interviewers are produced depends upon how well the manager of credit sales can teach them to really understand their work. That means showing them clearly the "why" and the "how" as well as "what" to do. In our treatment of the application form, for example, we have indicated the method for the manager of credit sales to follow in discussing with his employees not only *what* information is called for but also *why*. Now we can proceed to discuss the "how" of securing that information from the applicant.

QUESTIONS

1. What purposes should be achieved by the credit interview?

2. What are "the four salient problems of interviewing"?

3. If you were limited to making only a half-dozen queries of the applicant, what specific questions would you ask?

4. Which ones of "the five basic credit questions" would each of your specific questions help to answer?

5. "The question as to whether the person already *owns* his home, automobile or other property or is *still paying on it* is extremely important." Why?

6. What questions might you ask to give you an estimate of an applicant's income and expenses?

7. What is your opinion of the value of the business references and the personal references secured from applicants?

8. What questions may be asked to cast light on the applicant's character and willingness to pay?

9. If you had your way, how would you arrange your office to secure the most effective possible staging of the credit interview?

10. "Should salespeople or floormen take applications and conduct credit interviews?" Give reasons for and against.

CHAPTER IV

INTERVIEWING THE APPLICANT

(Taking the Application; Educating the Customer)

The third problem in interviewing concerns the actual technique to be employed in taking the application. The guiding principle is to handle the prospective customer with the right blend of cordiality and seriousness. Much depends on what is said and how it is expressed.

To be specific, let us start out with the prospect who has decided to apply for charge account privileges. And let us assume we are discussing a store where interviews are handled by the credit sales department.

What Is the Technique to Be Employed in Interviewing?

Receiving the Prospective Customer

Role of salespeople.—If the prospect indicates to a salesperson the desire to open an account, the latter should respond with some such pleasant welcome as "Certainly, our credit office is at the rear right there in the corner, and Mr. Smith will be delighted to receive your application."

In cases where the store is large and the salesclerk cannot accompany the prospect, he may not only indicate just where the credit office is to be found and mention the credit manager's name, but may also give the applicant a card of introduction. This card may be a special form indicating the names of the manager of credit sales and the salesman and containing a space for writing in the name of the applicant, or the salesman may use one of his own business cards, writing in the names of applicant and the manager of credit sales and the location of the credit office.

In a small store the salesperson should conduct the prospect to the manager of credit sales and introduce him after responding to the inquiry about opening a charge account

with an agreeable expression like "Surely, just come with me; it will be a pleasure to introduce you to our credit executive."

Welcome by credit office personnel.—When the applicant approaches the credit office, it is a good policy for the person on duty, whether it is the credit sales executive or an information clerk, to greet him with a pleasant "Good morning," or "Good afternoon," and "May I help you?" or "How may I serve you?" Too often the applicant is not promptly noticed or he is met with "What can I do for you?" "Did you want something?" "What did you want to see me about?" "What do you want?" or a curt "Well?" These are admittedly poor salutations but they are very frequently heard.

In response to the applicant's query concerning the opening of an account, the information clerk may say "Just a moment, please" or "Mr. Smith will be glad to see you; I'll let him know you are here" but not "All right," or "If you'll wait a minute, I'll call him," or "I'll see," for such responses are too indifferent and abrupt. Of course, it is to be emphasized that even more depends upon the tone and the demeanor of the employee that on the words themselves. For example, you can call a baby an endearing name like "precious" in a pleasant tone and make him coo or you can utter the same word in an angry tone and provoke him to cry.

Attitude of credit interviewer.—The credit interviewer should greet the applicant by telling him that he is glad to meet him, and if the applicant is a lady he should rise and offer her a chair. The interviewer should start out with the positive mental attitude: I am going to make a friend of this person—he is going to feel glad that he met me.

This attitude helps to develop and improve the interviewer's own personality, it helps to "sell the store," and it gets him off to a flying start toward successfully accomplishing all of the objectives of the interview. When, on the contrary, he begins with the negative mental slant: I'm going to put the screws to you—I expect to find something

bad—I am a detective and am going to uncover a fraud, he makes a beginning which compromises and threatens the success of the whole interview.

Just as under the law all persons are considered innocent until proven guilty, so the credit interviewer should consider all applicants honest and entitled to credit until he has satisfied himself that they are not. Appearances are deceiving. Experienced credit men know that many an unprepossessing applicant has turned out to be a first class customer both as to volume of purchases and fidelity of payment.

Conducting the Interview

In conducting a credit interview the interviewer may be regarded as in the position of a salesman. He is not a salesman of goods but of ideas. To get what he wants, namely, to accomplish all the purposes of a good interview, he must be able to persuade the applicant to think as he thinks, feel as he feels, and act as he wants the latter to act. To do this, he must first "sell himself" to the applicant. The interviewer's task is to gain the confidence of the applicant and get him to "open up" so that he will be neither stubborn nor afraid of the interviewer but instead will like and cooperate with him.

The interviewer must create an atmosphere of *cordiality and seriousness.* Whether he succeeds in doing this depends largely upon three things: his manner or demeanor, the tone of his voice, and the words employed. His manner can be sympathetic, friendly and interested; the tone of his voice can be kindly and helpful; and the words used can be well chosen, for some words grate or offend. The technique of successful interviewing is a difficult, many-sided process which requires long practice and endless study for its perfection. It cannot be treated here exhaustively but its fundamental principles can be stated and explained.

Principles of interviewing.—First of all, as indicated above, the attitude of the interviewer should be that of persuading the customer to cooperate freely and willingly in giving the information desired.

Secondly, the interview should be conducted in a conversational manner. The interview is a conversational visit; it is not an inquisition consisting merely of a series of abrupt questions and answers. Thus, when asking questions the interviewer may strike up a bit of conversation on the pleasant aspects of the question, asking the applicant how he likes the place where he is living, complimenting him on his residential location, his firm, his long service with the firm, his children, the fact that he is married or the fact that he is not married considering his youth, as such questions come up.

Third, the application form is planned to apply to all types of persons and discrimination should be used as to which questions are necessary or important in each particular interview. In short, the questions on a detailed application form are not there for the purpose of answering them *all* but to answer as many as is necessary to let the credit office pass an intelligent decision whether it be "yes" or "no." It might be taken as a sound postulate that where too many questions *have* to be asked, the applicant will not be found to be a satisfactory one.

In some application forms the questions are so arranged that they fall into two main groups. The first group of questions consist of those which are asked of every applicant no matter who he may be. The second group contains those questions which are asked only where the credit interviewer is uncertain about the applicant.

Fourth, it is best for the interviewer rather than the applicant to fill out the application form as he asks questions and converses with the latter. For if the applicant balks at the necessity of answering an oral query he will balk all the more at having to fill out the blank himself. Again, applicants will sometimes fail to answer certain questions when left to fill out the form themselves, feeling that such questions are not necessary or that they should be made an exception and not required to answer. Yet data thought to be of little importance by an applicant may be quite necessary to complete the credit information required. If

the applicant fails to fill in answers to all questions, completion of the form at the request of the interviewer may cause friction.

Fifth, it is a good plan to start the interview with a question or two relating to something the prospect is interested in but which is not directly related to the information called for in the application form. For example, the interviewer might ask how the ball game came out, how business is going with the applicant, whether he is related to someone else of the same name with whom the interviewer is acquainted, and so on.

Then the interview can quickly slide into the questions of real importance. As the interviewer begins upon the credit questions he may sometimes find it better to start in at the middle of the application form than at the beginning. If one starts in with asking the name and what the initials stand for and goes straight down the blank without any conversation, it is easy to create the impression that he is putting the applicant in the position of a witness in the chair. Skipping around and talking a bit prevents such an impression from arising.

Sixth, the interviewer should never argue or appear to insist if the prospective customer balks at a question. He should explain the reason for the question, or leave it to converse a bit or go on to another question, and then come back to the original question later, phrasing it in a different manner.

Seventh, the interviewer should call the applicant by name often during the interview. Everyone likes to hear his own name occasionally during a conversation instead of always being addressed impersonally. The interviewer should mention his own name several times also. This use of names tends to make the two people feel better acquainted and at home with each other.

Eighth, the interviewer should always be on the lookout for anything unusual in the applicant's story or conduct during the visit. Close observation of the prospective

customer may reveal certain contradictions, danger signals, or evidences of character.

Character analysis.—It may be stated here that various systems purporting to train credit men to "analyze character" by studying a person's nose, eyes, color of hair, fatness or slimness, and the like are absolutely without scientific value. Many credit men have an uncanny sense of sizing up people and judging character, but they do it not by observing whether the person's ears lie flat or protrude or whether his forehead bulges or recedes, etc., but by the *total impression* given off by the applicant.

As an illustration of how the foregoing principles may be applied in interviewing, brief mention may be made of suggested ways of handling special problems which arise during the interview.

Some Problems in Handling Applicants

At the outset of an interview the applicant may protest against "the red tape, the formalities or the inconvenience" of answering questions for the purpose of opening a charge or deferred payment account. This situation can be handled by any one of several approaches emphasizing the following ideas.

Answering objections to interview.—The first is that the interview will take but a moment (and therefore will not be inconvenient). This idea is often expressed by some statement such as: "We just want to know where you desire your monthly statement mailed and where you want the goods delivered." After the applicant has answered these questions it is usually not difficult to continue the conversation and secure answers to the other questions necessary to ask.

The second idea which may be conveyed to the applicant to overcome his protest is that the store is not investigating his credit as a particular case but only following a routine which applies to every applicant. When the customer is led to see that he is asked to do only what everyone else is required to do, his objections usually disappear. Thus the

interviewer may say: "This form is the one used by all of the leading houses in town (or by all of the stores which are members of the Retail Credit Bureau or Association); I am sure that your credit is O. K. but we have to make a record of every new customer."

A third idea which may be used by the interviewer to overcome the protest of the applicant is to indicate the value of the interview to the latter. Thus: "When you establish your credit here, the record is turned over to our credit bureau and all you will have to do is to refer to the credit bureau when you desire to open an account with other stores."

It may be pointed out that the purpose of the interview is just to get certain information so that the prospective customer may be more efficiently served. For example, "It will take just a minute to get your full name and address and a few important details for our records so that we can serve you efficiently." Or "We need your signature to protect you from any one making fraudulent purchases on your account."

Objections to certain questions.—The applicant may shy away from certain questions or manifest stubbornness when some particular information is requested. Usually this reluctance can be overcome if the credit interviewer explains the reason for the question, the reason indicating that the particular information requested will help the store to serve the prospect better.

For example, in asking for the applicant's full name, if he has responded with only his initials and last name, the interviewer may explain: "We want to prevent any errors occurring from confusing your account with that of someone else who has the same surname." Or "We would not want any one with your name and the same initials to come in and buy on your account." In requesting the name of the husband or the wife the reason may be "so that he (or she) can use your account."

Sometimes the credit man feels that it is necessary to obtain the amount of the applicant's salary during the in-

terview. Often this may be asked for directly if the prospective customer is a young man or a young woman. Usually, however, it is rather a ticklish proposition and may be approached indirectly as in the following.

Question: "How high a limit would you like?"

Answer: "Oh, I don't know."

Q.: "Well, we can figure out a satisfactory limit on the basis of your income; about what does that run per month?"

If the prospective customer names a credit limit which the interviewer feels will be too high or too low, he may respond in a helpful tone, "Do you really think you would need that much? It may be that $50 would cover everything you will need to buy. Suppose we take that as the figure for the present." Or, "Oh, I think you could take care of $100" or "Well, we will be glad to let *you* have up to $100."

Such a discussion of the credit limit with the applicant and a decision with him as to that limit gives the credit sales department a firm basis for restricting purchases if overbuying is attempted. On the other hand, many credit men never discuss credit limits with the applicant, but set them themselves. However, it should be pointed out that unless the applicant knows and agrees to the credit limit set, it is nearly certain that unpleasantness and difficulties will develop if the account should be closed because of the amount purchased.

Other information.—In order to secure information which may be of value for the sales department, the interviewer may ask certain questions. For example, in a department store, as we previously indicated, the credit interviewer may ask the prospective customer whether he owns an electric range, a mechanical refrigerator, an electric washing machine, a radio, or other appliances.

Also it is to be noted that the conversation with the applicant may reveal information to an alert interviewer which will lead to sales if turned over to the sales department. Thus, learning that the children are going to start

school or going away to college in the fall, that the applicant is going to build a home or refinish his present home, that he is moving from an apartment into a house or into a larger apartment may indicate sales opportunities to the credit men of firms in certain lines of business. The credit interviewer should always be on the lookout for any information revealed in the conversation which might prove of value in building sales.

How Is the Prospective Customer to Be Educated in the Use of His Credit?

One of the most important purposes which can be served by the credit interview is educating the prospective customer upon the credit terms of the house and in the sound use of the credit privilege. At the very least, the credit interviewer can give the applicant an excellent start toward this education.

Today the National Retail Credit Association, the local credit bureaus and associations of retail credit men and also individual firms are endeavoring by newspaper, radio and bill board advertising and by enclosures in letters to educate consumers to "guard your credit as a sacred trust" (see page 76). This work must go on and should increase.

Opportunity of the credit interview.—But the best opportunity for educating consumers to the correct conception and sound use of credit is to be found in the credit interview when the interviewer and the prospective credit customer are meeting in personal contact. If the consumer is ever to be educated this is the time to do it because he is in a receptive mood; he is willing to listen. If it is true that the store desires the favor of this man's business, it is also true that he is requesting a favor from the store, namely the opening of a charge or deferred payment account. And when a man is in this position of asking for or seeking something, he is in a cooperative attitude.

Yet we find that in general the retail credit man does not avail himself of this excellent opportunity to drive home

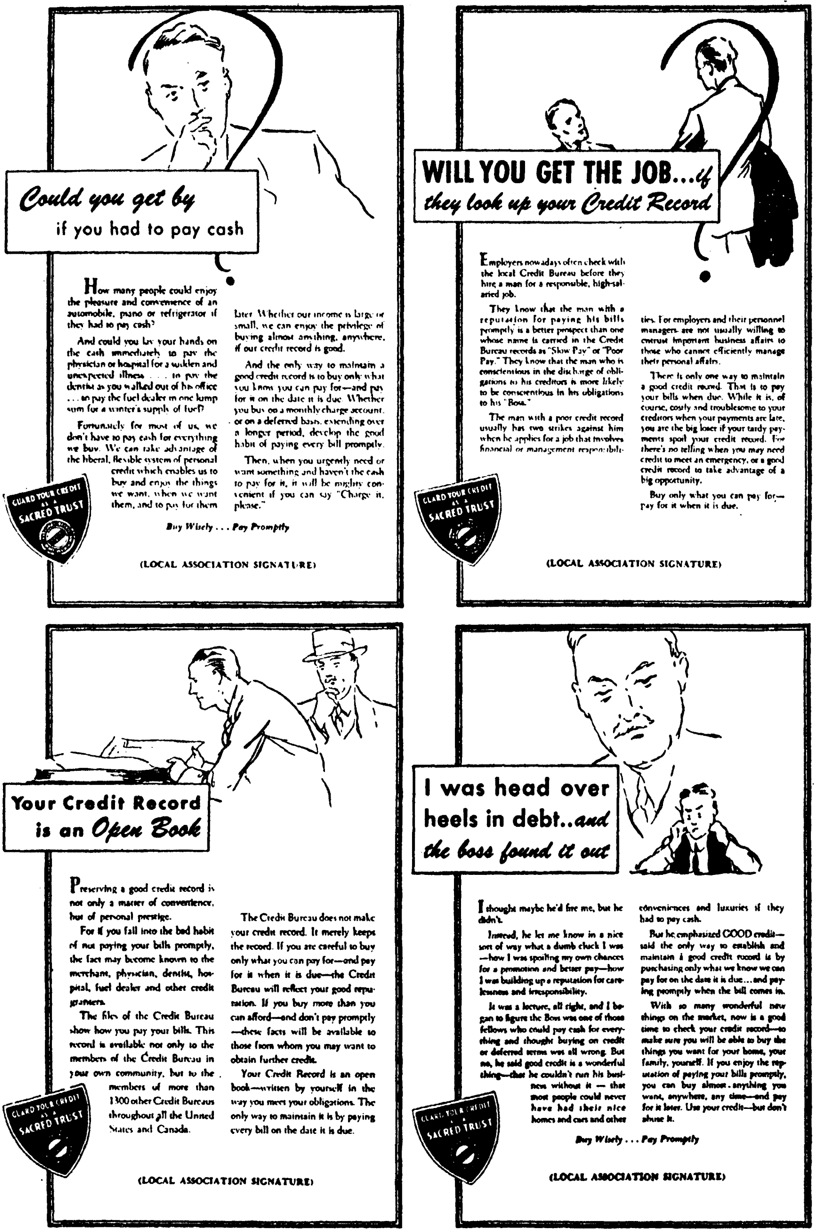

FIG. 2. EXAMPLES OF "PAY PROMPTLY" ADVERTISEMENTS FURNISHED BY THE N. R. C. A. TO ASSOCIATIONS AND CREDIT BUREAUS.

the credit policies and terms of his store and the essentials of what constitutes using the credit privilege in a satisfactory manner. The tendency on the part of many credit men to shorten the credit interview to the brief routine of securing names and addresses has already been pointed out. But no interview should be this short.

Education needed by all new customers.—It is true that the applicants for accounts will fall into two main groups: those whose credit ratings are not yet known and those whose ratings have been checked by the credit sales department before soliciting their business, but in both cases it is highly desirable to interview the applicant.

This personal interview is indispensable in the case of applicants not known to the interviewer and very important even in the case of those who are known to be satisfactory, and the interview should be long enough to allow the interviewer to "sell the store," perhaps secure some information for the sales department, and have a clear understanding of the credit terms and the use of the credit privilege.

The time to educate the consumer is before the account is opened for he will never again be so willing to listen to credit education. The prospective customer must be made to feel in this first personal contact that credit relationships with the firm are a privilege and must be respected. Otherwise one of the great opportunities presented by the interview is wasted and unsatisfactory results are sure to follow in an appreciable number of cases.

Cheerful vs. grouchy type of credit men.—In the past the credit man was often regarded as a grouch who killed the business produced by the sales department and drove customers from the store. No one would recommend the adoption of such an attitude, and the new generation of credit men tend toward the cheerful and optimistic type. This is decidedly encouraging. However, it is often true that the cheerful type does not educate consumers in credit and in the necessity of paying as agreed any more than does the pessimistic or grouchy type.

Often the cheerful or "modern" type of retail credit man seems to fall all over himself in attempting to get the business, treats the question of terms and of paying as agreed as a mere nothing, figuratively pats the customer airily on the back, and completely ignores what he appears to consider to be the disagreeable task of going into the question of prompt payment, or dismisses it breezily with a word. The credit interview should indeed be a happy seance, but it should be serious and neither flippant nor nonchalant. It is better for it to be somewhat cordially formal rather than a sloppy exhibition of the glad hand.

The manager of credit sales, of course, tries at all times to "sell the house" and to radiate a positive, pleasing personality, but the central thought in his mind is not to be merely pleasing and exuberant but to tactfully prepare to "Collect that account." Later on he will have to "sell" the customer on paying his bills. Just now in the credit interview he should be focusing the attention of the applicant on the serious nature of the contract and "sell" him upon being willing to fulfill that contract.

Ignorance of Consumers

Now, the necessity for doing some credit education in the interview is tremendously important for the simple reason that the great mass of consumers are so abysmally ignorant of what constitutes a good credit rating. Many charge customers think that the only thing necessary to completely fulfill the obligation is to pay *sometime.* They feel that the only thing the credit man is afraid of, when he is interviewing them or later when he is trying to collect from them, is that they will not pay at all.

This is precisely why the average customer shows such a ready disposition to get mad when requested to pay his bill or even when requested to give information during a credit interview. In other words, since the consumer thinks that all that is necessary is to pay his bill *sometime,* he naturally infers that questions about his credit or requests to pay his debts are simply insinuations that he is *dishonest.*

The point is this: *The average consumer entirely overlooks the fact that paying his bill promptly as agreed is just as important as paying the bill at all.* The funny thing about this is that a great many retail credit men have not made a thorough enough study of credit to realize that when consumers do not pay their bills promptly, the firm's profits are cut down. In brief, many credit men have the same mistaken notion of what constitutes satisfactory credit relationships as do the consumers.

The main problem in credit education is not the mere problem of convincing the consumer that he ought to pay his bills, for after all bad debts make up only a very small percentage of credit sales and it is well known that practically every consumer is honest, that is, he intends to pay and he will pay sometime. No, the main problem in credit education is to educate the consumer to see the reason why he must pay his bills *promptly.*

The manager of credit sales in his interview with the applicant should not merely give the latter the terms of the store as if they constituted an ultimatum but should give those terms and then explain the *reasons* why bills must be paid promptly (see page 230). When the manager of credit sales explains the reasons, the consumer sees that the demand of the store for prompt payment of bills is not just an arbitrary and unreasonable ultimatum based upon suspicion of dishonesty, but is necessary for the store to profitably continue in business selling at its present prices and giving its present service.

Effects of Slow Payment

When customers do not pay their bills promptly, the store is hurt because of the increase in expenses and decrease in net profits. These effects are produced by the extra bookkeeping and collection expenses and by tying up the capital of the firm. The extra expenses involved in the additional bookkeeping and collection efforts required by past due accounts are obvious. How the tying up of capital throws an extra expense on the firm and eats into

the profits is not so generally perceived by the layman. A few brief words of explanation will suffice.

It is apparent that a store has to have money with which to continually make new purchases and keep its stock of goods at the necessary level. When a store does not get in this money promptly enough to meet its expenses and purchase new goods due to the fact that many customers do not pay on time, it is obvious that the store will have to get whatever money is lacking somewhere and somehow.

It can go to the bank and borrow the money which was not forthcoming as agreed from its customers, but it will have to pay interest on this money. This interest is simply an added burden upon the business which takes just so much out of the net profits. Or the firm can advance the money necessary, because of the failure of many customers to pay on time, out of its own pocket. But this will also cut down the rate of profit. This is true because it means tying up more capital in order to conduct the same volume of business and since the same amount of profit is now received although more capital is invested, the *rate* or the per cent of profits earned upon the firm's capital is necessarily lower.

Explaining reasonableness of prompt payments.—The credit interviewer may explain the reasonableness of the firm's insistence upon prompt payment in some such manner as follows: "I know very well, of course, that you are a responsible person and I am very happy to have your application because we do business only with responsible people. Our terms are that accounts are due on the first of the month following purchase and must be settled in full not later than the 10th of that month. We prefer not to open accounts with people who require longer time.

"This is not at all because we believe any of our customers are anything but absolutely honest; we have full faith in their integrity. Nor is it because we are arbitrary or unreasonable. It is simply because we have to settle our bills and to pay for new merchandise very promptly,

and when we are not paid on time we cannot pay our bills and so are forced to borrow at the bank, which costs money and reduces our profit.

"In addition, of course, there is extra expense in bookkeeping and collecting to eat up our small profit when customers do not pay promptly. The small profit made in these days of keen competition makes it necessary to collect promptly."

Giving the Customer a New Viewpoint

When a credit man proceeds along a line of conversation as indicated above and makes it clear to the prospective customer that unless bills are paid promptly the store has added expenses and loses part of the profit necessary for it to remain in business and continue service of the same quality and at the same price, the latter appreciates for the first time that there is a big difference between paying his bill sometime and paying it promptly, and also sees that when the firm insists upon prompt payment it is not doubting his honesty at all but simply trying to preserve its legitimate profit.

The customer, in other words, sees the situation for the first time from the store's viewpoint. Unless he gets this viewpoint, the retail consumer never will appreciate the true meaning of "Guard your credit as a sacred trust," and "Pay bills promptly." He will continue to interpret these slogans as he does now, namely, that he is "guarding his credit as a sacred trust" as long as he manages to pay his bills in full sometime and somehow, and that paying bills promptly is just an arbitrary and unreasonable demand which has not a thing to do with his goodness as a credit risk. He will continue to take the attitude: "I'll pay, I'll pay every cent I owe you. You'll get your money, what more can you want?"

The explanation of terms and of the necessity of prompt payment can be made in such a way as to make the prospective customer more pleased with the interview than if this matter had not been mentioned at all. For the ex-

planation can be made in a manner to appeal to the pride of the applicant, to make him feel proud of himself. For example, if the credit interviewer says: "Our terms here are more strict than in most places and so we do not have to charge more or slight our quality and service because of borrowing money to carry slow accounts, and I am sure you won't have any trouble in paying like our customers do," it makes the applicant feel that he is a man who is in a special class and who keeps his obligations to the letter.

Having the prospective customer sign the application form is an impressive formality, but it is doubtful whether the applicant is as much impressed by merely signing this form, which has the credit terms printed above the space for his name, as he is by signing and also hearing an explanation of these terms by the credit interviewer.

Appealing to the Applicant's Self-Interest

In educating the prospective customer as to the store's terms and the sound use of the credit privilege, the credit interviewer should not only explain the situation from the store's viewpoint but may also show the applicant what sound use of his account means to him personally.

Thus, the credit interviewer may converse along the following lines. "If you pay your bills, and *pay promptly,* you will always be able to get accommodations anywhere, even if you are temporarily out of cash. It really is not so much a question as to whether you pay your bills in full (that is expected); it is *how.* If you do not pay promptly you make a record in the credit bureau which will not help you in getting credit elsewhere. If you make a good record at this store your record at the bureau will show it and you can easily get credit at other stores."

Credit education of young persons and others.—To young persons or young married couples, the manager of credit sales may give some fatherly advice about how they are just starting out to establish their credit, how they are beginning to make a record, and how they will be enabled

to get accommodations everywhere if they are careful in their financial management so that all their accounts will be paid promptly.

Again, many a person who has established a "slow-pay" record in the past has been changed into a very desirable credit risk by a credit man who took the pains to use the credit interview for the purpose of education in what sound use of the credit privilege consists of and how it redounds to the advantage of the customer.

The amount of credit education to be given in the interview to any particular person depends naturally upon the type of applicant. Some applicants call for a more thorough explanation than others and in some cases, like those of young persons or young married couples, the interviewer can without offense speak more frankly, more positively, and more directly than in others. But some credit education should be given to every applicant.

Credit education of substantial customers.—How about the applicant who is a substantial citizen and well known to the manager of credit sales as a first-class credit risk? Even such cases should be given a certain minimum of credit education instead of brushing aside all consideration of terms and prompt payment in a flippant manner. *The manager of credit sales should explain the terms clearly* to see that there is no misunderstanding and then say something about the necessity of prompt payment. If he is afraid of offending the substantial person who is applying for the charge account privilege, he can discuss prompt payment not in such a way as to aim directly at the applicant but in an indirect manner.

For example, he can talk to the applicant, as one superior person to another, about "the lack of reasoning on the part of the average person," starting off, perhaps, as follows: "You know, Mr. Brown, it is funny how many erroneous ideas the average man has about credit. Such people don't realize just why we insist on payment in full by the 10th of the month following purchases. They think that the only thing that matters is their honesty, and they never realize

why we have to be paid promptly and that if we are not, we lose money even though the bill is finally paid.''

In brief, every applicant requires some credit education. It may be more for some and less for others; it may be directly aimed at the applicant in some cases and tactfully mentioned indirectly in other cases. But some credit education should be given in the interview. It should be remembered that although credit education calls for statements which might give offense if they were printed in cold type, it can be given entirely without offense in an interview provided the interviewer uses a helpful tone of voice and manifests a sympathetic attitude.

At the end of the credit education and of the interview, the credit man should take leave of the applicant with some pleasant thought. He may suggest a bargain which the store happens to be featuring at the moment, he may state that the customer will be pleased with the purchases he has made, he may close with some expression of the firm's desire to please him in its service, or he may thank him cordially again for bringing his business to the store.

The Task of the Credit Interviewer

It is evident from the pages of this chapter that the job of taking applications and interviewing prospective customers is a most complex and delicate task—and a most important and valuable function in credit sales department operation.

To increase his efficiency in interviewing, the credit man should unceasingly follow a practice of trying to check up the mistakes he feels he has made after each interview, and to figure out then and there just exactly the best words to say or the best way to act when the particular situation causing the mistake arises the next time in an interview. Only by constant self-criticism, by checking over mistakes, and by deciding in advance how to act and just what words to use next time can the interviewer perfect his technique.

Many students of credit feel that the ability to successfully interview and obtain information from an applicant

for credit is the real test of ability in the case of a credit executive. It is an art which reaches perfection only after years of study and training. Every personality is different, requiring a different approach and handling, and the interviewer must be able to quickly adjust his manner to meet each case. One customer will react to slow, methodical and serious questioning, while the next requires rapid-fire, jovial conversation. The credit interviewer must retain his composure under the most trying circumstances, be uniformly polite, affable and courteous, yet persistent and positive.

As a result of taking the application proper, the credit interviewer has accomplished important objectives in credit operation. He has "sold" himself and his store to the applicant, he has educated him, or has at least started his credit education, he has possibly discovered some leads for the sales department, and he has secured certain credit information.

Now, the actual information secured in taking the application is only a start toward discovering whether it is to be accepted and the account opened. To check the credit, that is to analyze the risk presented by the applicant, more information is usually required. This problem is the subject of the next chapter.

QUESTIONS

1. What should be the attitude of the credit office personnel, and especially the interviewer, toward the applicant? Why? How would you describe the proper atmosphere which should be created in the interview?

2. What seem to you to be the most important principles to follow in conducting the credit interview?

3. "Systems purporting to train credit men to 'analyze character' by studying a person's nose, eyes, color of hair, fatness or slimness, and the like are absolutely without scientific value." How, then, do you size up an applicant's character?

4. How would you handle the following cases: the person who protests against the inconvenience and "red tape" involved in taking the application; the applicant who shies away from certain questions; the applicant whose exact income you feel you must learn?

5. Give examples of the kinds of information you might secure from the applicant which would be of value to the sales department.

6. "One of the most important purposes which can be served by the credit interview is educating the prospective customer." Education on what things? Explain.

7. Why is the opportunity for customer education particularly great in the credit interview?

8. What in your judgment is the outstanding fallacious belief of consumers in regard to their credit relationships with the retail store?

9. Should credit education be dispensed with in the case of substantial customers? Why or why not?

10. What is your estimate of the credit interviewer's task—easy or difficult? What conditions make it so? What practice should an interviewer follow in order to increase his efficiency?

CHAPTER V

INVESTIGATING AND ANALYZING THE RISK

How Much Investigation and Analysis Is Necessary?

When is a new charge or deferred payment account opened to the use of the applicant? As soon as the manager of credit sales has satisfied himself that the prospective customer is a responsible and desirable risk.

Exceptional cases.—This means that in some cases the account may be opened immediately at the end of the credit interview.

For instance, the applicant may be one of those whose standing has already been checked by the credit sales department and who has come to the store in response to its solicitation.

Again, he may be some person well known to the store as being a man of substance and responsibility. Or, if the local credit bureau publishes a rating book, the interviewer may have consulted it during the interview and found the applicant to have a satisfactory rating.* In such cases as these the manager of credit sales may assume that the credit has been investigated sufficiently and further analyzing of the risk is not necessary. However, he should check up afterwards to assure himself that his assumption was sound.

*Rating books, listing the names and addresses of the established credit customers of the community and indicating their paying habits by appropriate letters of the alphabet, are not found in many cities now. Like the city directory, rating books are necessarily inaccurate to a certain extent (some credit men claim as much as 20 per cent) on the day the first new copy makes its appearance. Therefore, they should be used with a great deal of care and only to assist in checking out small amounts in a hurry; never for the actual establishment of an account. The necessity of frequent revision makes the maintenance of a credit rating book service expensive to the bureau.

Furthermore, some stores pursue the very liberal policy of opening an account to immediate but limited use if nothing unfavorable or suspicious is revealed in the interview, and then analyze the risk later. And some retailers in installment selling have followed the unsound practice of letting the applicant have the goods without making a credit investigation and an analysis of the risk, relying for protection upon their power to repossess the merchandise.

The usual policy.—Generally, however, retail establishments will not allow a new customer to secure possession of merchandise before the credit risk has been analyzed and found acceptable. As a rule the practice of permitting new customers to charge even small purchases before the investigation is made, is not good business. Should it develop that they are not entitled to credit, it is embarrassing to decline after a charge has been made. Likewise, delivering installment merchandise before investigation and analysis of risk only to have to repossess it soon after is not sound business.

In other words, the usual procedure after the interview is to secure further information from sources other than the applicant himself, and then to carefully study these data together with those secured during the interview for the purpose of analyzing the risk presented in the prospective new account. These two functions of credit work are discussed in the following pages of this chapter which apply equally to charge and deferred payment accounts.

All customers of retail stores expect and demand immediate action on their applications. They usually are in immediate need of the merchandise purchased and often cannot understand the necessity of reference to a credit bureau, or verification of the information given. This is particularly true of women customers who do most of the buying in retail trade. Therefore, it is necessary to assure quick service in investigating and analyzing.

Investigating the Applicant

What Additional Information Is Needed?

Why must the manager of credit sales usually secure additional information after the interview with the applicant is concluded? There are two important reasons for this further investigation. First of all, it is desirable to make certain of the identification of the applicant and to verify the information he has given. Secondly, the data he has furnished usually need to be supplemented by added information if the credit analyst is to have a more nearly complete picture of the prospect's ability and willingness to pay.

In this credit investigation, the credit sales department may use any one or more of a number of sources depending upon how thorough an inquiry seems necessary in each case. Applications for small lines of credit or from consumers having established accounts in the community require less investigation than those for large lines or from out-of-town people, new arrivals, or others whose records are not in the files of the local credit bureau. By far the most important source employed in this credit investigation is the credit bureau.

Procedure in Credit Investigation

Just what procedure should be followed in making the investigation? To begin with, the applicant's story should be checked: by communicating with the company with which he claims he is connected to ascertain whether he is in fact employed and, if so, his position or job and approximate remuneration; by verifying his bank reference and endeavoring to find out if possible something regarding his balance and his relations with the bank;* by checking prop-

*As previously indicated, the general experience seems to be that banks do not give any worthwhile information on bank balances as far as retail customers are concerned. In the majority of instances the account seems to be an in-and-out proposition and is more or less a nuisance to the bank. About the only value of a savings account reference is to afford an item of identification. On savings accounts banks will furnish information if the inquiry is accompanied by a letter from the depositor authorizing the bank to do so.

erty records in case he has claimed property ownership; by getting in touch with personal references given by the applicant to ask questions serving to make certain of his identity and to check some of his statements; by discovering from the stores given as business references what has been their experience with his account—and so on. This process of verifying the information taken down on the application form not only checks the truth of the applicant's story but also yields some new, and usually valuable data.

Use of the Credit Bureau

Now, all of this verification of the information received from the prospective customer in the interview may be done by the store's own credit sales department contacting each of the sources necessary to make the investigation satisfactory. But it is obviously preferable when there is a credit bureau in the community to transfer the functions of verification and of securing additional information to it.

The manager of credit sales has only to reach for the telephone and contact the bureau: one source instead of many. If it has no record of the person, the bureau can quickly secure a complete report whether the applicant is a local citizen or a newcomer for it is especially equipped and specialized for just this kind of work. When, as is generally the case, the bureau has a file on the applicant, that file usually contains not only the data necessary to check the information given by the applicant but also any derogatory information and, most important of all, more complete data on the experience of merchants with whom the applicant has accounts than can be secured by a credit man directly contacting the few business references given by the applicant.

Importance of cooperation with the bureau.—This last mentioned function of the credit bureau in regard to ledger experience is extremely important. For in the credit investigation preparatory to analyzing the risk, perhaps nothing is so valuable as discovering just how the applicant

has paid his bills. His paying habits constitute probably the most important indicator of his ability and willingness to pay,* and indeed are usually the deciding factor in opening the new account.

Because ledger experience is so important in credit investigation and credit analysis, it is better for the credit sales department to make its inquiry concerning the applicant to the bureau, where one exists, than to ask each of the merchants he has given as references. The latter procedure would mean getting the ledger experience of only part of the firms with which the applicant had accounts, for he will naturally name only those stores where his record has been good. Also it involves more labor for both the inquiring store and the stores given as references, and may become annoying and expensive. Finally, each such inquiry brings the information of only one store, and in some cases possibly this may be distorted because of competitive jealousy.†

Since the credit bureau is maintained as a clearing house for most of the credit information of a community, it is advisable to use it for checking information and securing reports. This is because such procedure not only tends to bring the store more complete information, but also helps to keep the bureau's records up to date, as a notation is made by it that the person has applied to the store in question for credit and in future reports, its experience with the customer will be requested. When the amount of credit requested by an applicant is large, some stores make a special investigation of their own in addition to securing

*Consideration must be given to the effect of depression and unemployment which may cause a formerly prompt-paying customer to be temporarily recorded as slow pay.

†It is unfortunately true that some retailers still give perverted information regarding their customers who have applied to other establishments for credit. This is said to be especially true in the case of installment houses which, it is claimed, frequently give bad information on a good account and then immediately send their salesman out to the customer and try to sell him something from their own store. They have been known also to give good information on bad accounts for the purpose of misleading competitors into getting "hooked."

a report from the credit bureau. There are several types of reports available from the credit bureau.

"In File" Reports

The manager of credit sales will generally find that getting an "in file" report on the applicant from the bureau is sufficient to check a small line of credit. In this type of report, an employee of the bureau generally reads the file information over the telephone to the inquirer, enabling him to verify the information he secured from the applicant and giving him the experience of the firms with which the applicant has accounts. The date of the information in this report is stated to the credit man, and if it is current the matter is ended unless references have to be checked, in which case the report will have to be prepared and given later to the credit man.

"In file" reports may be secured by telephone, mail or messenger. Also in many large cities, the TelAutograph and Teletype are used for quick service by large stores.* The store and bureau are connected by wire. The inquirers simply write the applicant's name, address and references on these machines, while the prospective customer is in the credit office, and the bureau's answer comes back in many cases almost immediately. In 1947, there were 42 bureaus throughout the United States and Canada using TelAutograph connections to a total of 254 stores. The number of stores connected with the bureau ranges from a single establishment in one city to 37 in New York City.

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*The TelAutograph transmitter is a device for changing the mechanical motions of the stylus in the hand of the writing operator into varying electric currents, while the receiving instrument at the other end of line is constructed so as to change these varying currents back into mechanical motions and control the receiving pen in unison with the transmitting stylus. Another function of the transmitting stylus is to control other currents which operate the paper shifting mechanism at the other end of the line.

The Teletype is, in appearance and operation, like an ordinary typewriter. Messages typed on one machine are instantly and accurately reproduced on any other Teletypewriter to which it is connected.

However, it should be noted that "in file" reports in general, although speedy and relatively inexpensive, do not contain as much recent information as "clearances" or "special" reports from the bureau.* The date of the information is important for the buying and paying habits of customers sometimes change rather sharply. Yet many cases occur where credit men either accept or reject applications on the basis of data that are many months or even years old. Such use of information so old as to be valueless is apparently due to negligence on the part of the credit man or to a misguided desire to save the relatively small cost of the written report needed. The necessity for up-to-minute information is always brought home forcibly to credit managers during depressions when the credit ratings and ability to pay of many customers, old as well as new, are changed because of investment losses, salary cuts, unemployment, and the like.

"Special" Reports

In making use of the local bureau for the purpose of credit investigation, managers of credit sales probably employ the "in file" report method in the case of the overwhelming majority of applications investigated. However, in the case of a large proportion of applicants, this method cannot meet the need satisfactorily, for example: when the information in the bureau file is old, when the bureau has no record of the applicant, or when the application to be investigated is for a large line of credit. In such cases a "special" report should be secured from the bureau. This is usually more comprehensive and also more up-to-date than the "in file" report, and contains a large number of items of information which may be classified under the following five main heads.

*Some credit bureaus will not give any reports without clearance unless the applicant's record has been cleared within thirty days or so, in which case they will give file information over the telephone. Acceptance of file information alone as the basis for opening an account should be the exception rather than the rule.

First, the *Antecedents or History* of the applicant is given. Here is shown information relative to the person's age, marital condition, status and family, the conditions and appearance of his home, his permanence of residence and mode of living, and his general reputation and social standing. Opinions of personal references are given.

Second, his *Capital and Capacity* or *Resources and Income* are indicated by data upon his business or position and success or lack of success, his wages, salary or commission, his investments in real estate or personalty, and reference is made to any allowance, inheritance or special income received.

Third, *Bank Information* is given in many cities covering the approximate size of the account, any borrowing from the bank, and the opinion of the bank on the applicant.

Fourth, *Items of Public Record* are noted in regard to such matters as suits, judgments, tax assessments, liens, chattel mortgages and mortgages on the applicant's real estate.

Fifth, *Trade Information* shows the person's buying and paying habits at the stores where he has accounts. Here should be shown for each store the date upon which it opened the person's account, the highest credit or largest amount previously owed by the customer, the amount now owed, the date since which this amount has been owed, exactly how the customer pays (prompt, O. K., slow, or undesirable), whether the account is active or inactive, and date of last purchase. If the account has been closed at any store, the reasons for the closing, the amount and length of time it was owed, and the final disposition of the matter should be stated.

Clearances and special investigations.—If the bureau has a file on the person concerned, a written report containing up-to-date information from the stores with which he has accounts can be prepared in a few hours. This is called

a *Clearance*. It is only necessary for a bureau employee to contact each of these stores to obtain the items of Trade Information as of that day.

When the bureau has no record of a person, however, the preparation of a "special" report calls for a special investigation by the bureau. In the case of new arrivals, this should mean contacting the bureau (or other sources of information in absence of a bureau) in the city from which the person has come. In addition there may be a personal interview, the applicant being called to the bureau or being called on by one of its investigators. This latter procedure will be used also in the case of an established resident of the community of whom the bureau has no record. When making up a special report, the bureau or its investigators will contact not only the applicant but all other sources of information such as the bank, the employer, the personal references, and the public records.

Whether the "special" report results from a clearance or from an original investigation, it naturally costs more than securing an "in file" report. But in the case of a large proportion of applications, such "special" reports are absolutely indispensable. It may be well to note here that the experience of thousands of retailers has emphasized the fact that it is "penny wise and pound foolish" to be niggardly in regard to the cost of reports. If an account is worth placing in the books as a permanent convenience for the customer, it is certainly necessary to know all about the customer.

We have seen how the manager of credit sales, after taking the application and interviewing the prospective credit customer, usually must make a credit investigation for the purposes of verifying the identity and the story of the applicant and of securing further information. As a result of this investigation he is now provided with the tested and confirmed data needed in order to analyze the credit risk. Let us now, therefore, proceed to discuss this operation of credit analysis.

Rochill's REPORTS ARE BETTER

ASSOCIATED CREDIT BUREAUS OF AMERICA
INCORPORATED
AN ASSOCIATION OF CREDIT BUREAUS SINCE 1906

INTER-BUREAU REPORT
ACBofA No. 1
compiled by member bureau

CONFIDENTIAL

1 REPORT ON: ROE (Surname first) MR. (Mr or Mrs) JOHN JAMES (Given name) MARY (Spouse's name)

2 RESIDENCE ADDRESS: 162 Pine Street (Street number) Utopia (City) Rose (County) Missouri (State)

IDENTITY	3. Number of years covered A In file	A. 10 years
	B In investigation	B 10 years
	4. A Age (If near 21, confirm)	A 46
	B Racial extraction	B White
	5 A Marital status	A Married
	B Number of dependents?	B Wife and 4 children
HISTORY	6. A. Name of employer	A Commercial Radio Co., 512 Main, Utopia
	B Type of business	B Radio & Appliance, Sales and Service
	7. A. How long so employed	A 10 years
	B Position held	B General Sales Manager
	8. A. Does applicant have record of steady employment?	A Yes
	B Any recent employment change? (If yes, explain in remarks)	B No
	9. Any suits, judgements or bankruptcies? (If yes, explain in remarks)	No
Character	10. Is applicant well regarded as to character habits and morals?	Yes
	11. Is applicant favorably regarded by employer?	Yes
	12. Any suspicion of illegal practice past or present?	No
RESOURCES	13. A Estimate monthly income from present employment	A $500 plus $1000 annual bonus on sales
	B Estimate other income such as rentals, investments, etc	B $800 from investments
	C Estimate income of others in household	C None
	14. Own home, rent or board?	Owns home at above address
	15. A. Estimate of net worth	A $15,000 - $20,000
	B Consists mainly of what household goods, car, real estate etc?	B Home, personal property, car and stocks

CREDIT RECORD (If feasible include whether subject has satisfactory bank checking account)

Trade Line	How Long Selling	Date of Last Sale	Highest Credit	Terms of Sale	Amount Owing	Amount Past Due	Manner of Payment
Grocery	8 yrs	10/16/47	80.00	Open	35.00	35.00	Makes regular monthly payments
Hardware	5 yrs	12/28/46	253 00	Install	55.00	none	$20 mo. as agreed
Shoes	9 yrs	7/2/47	22.50	Open	none	none	30 days prompt
Department Store	8 yrs	10/13/46	115.00	Open	70.00	none	30 to 60 days
Electric Supply	2 yrs	2/16/46	174 00	Install	none	none	$15 mo. as agreed
Drug	8 yrs	3/30/47	25.00	Open	14.25	none	30 to 60 days
Physician	6 yrs	Bill for services rendered 3/16/45 paid in 6 monthly payments $50 each. Satisfactory					
Bank		Satisfactory checking account since 1937				No loans	

REMARKS A Give brief word picture of subject's history, explaining any unusual condition
B Amplify any incomplete or adverse information in answers above Use other side also for full details.

Subject is also director and owns stock in Empire Specialty Company, dealers in electrical equipment. His house and lot are assessed for $5700 on basis of 40% actual value. Good citizen and active in civic and business affairs. Report from previous place of residence, Fairville, N. Y., indicates prompt paying record and good moral integrity. No court or derogatory record.

Report for Credit Bureau of Excelsior, Excelsior, Illinois

Date 10/21/47 Prepared by Credit Bureau of Utopia (Name of member reporting bureau) Utopia (City) Missouri (State)

The confidential information given in this report is in answer to a request for same This report is compiled simply as an aid in determining the propriety of extending credit, or the value or condition of an existing credit and is based upon information obtained from sources deemed reliable the accuracy of which, however, is in no manner guaranteed The inquirer in accepting this report agrees to hold same in STRICT CONFIDENCE for his own exclusive use, never to be communicated, and to be personally responsible for any damage arising from a violation of any of the above provisions (Printed in U.S.A.)

FIG. 3. STANDARD CREDIT BUREAU REPORT.

Analyzing the Credit Risk

The Fundamentals of Analyzing the Risk

Risk analysis is often regarded as the central problem in the entire field of credit sales department operation. Every stage or function of credit sales management (securing new business, controlling the account, and collecting) and every phase or sub-function of each of these major divisions is important and must not be slighted if maximum efficiency is to be secured. But many feel that the kernel of the whole question of successful operation is to be found in the analysis of the credit risk. All the other work of the credit sales department will go for naught if bad risks are accepted and good ones turned down.

The task of competently weighing and analyzing the mass of credit information obtained regarding an applicant requires a sound judgment which can result only from careful study of fundamental principles and from experience. And the difficulty of this task is greatly increased by the fact that in so many cases the information gathered does not definitely and clearly point toward either acceptance or rejection.

In other words, if the credit data when analyzed would always show that the prospective customer was either clearly bad or definitely good, the problem would not be so difficult. But the information is often contradictory or not decisive as to whether the applicant is a good or a bad risk, and thus the most delicate and searching consideration is called for.

It is always well for the manager of credit sales in analyzing an account to ask himself the question: "Why did this customer apply for credit?" "Was it because she had no money?" "Was it because she had abused her credit elsewhere?" "Does she *need* credit or is she asking for it merely as a convenience?"

Guiding Principles of Credit Analysis

What principles guide the credit analyst as he studies the credit information? What is he seeking to discover?

The principle of most importance is that the applicant's credit, or power to secure present goods in exchange for a promise to render an equivalent in the future, must depend upon the four C's of credit: Capital, Capacity, Character, and Conditions.* He is seeking to discover what the various items of credit information reveal in regard to these four C's.

A person's credit, as observed in Chapter III, is primarily based upon his ability to pay and his willingness to pay. Ability in turn is dependent upon the individual's Capital and Capacity, while willingness is based upon Character. But these three C's are in turn founded on Conditions, for at any time conditions may be changing so as to affect positively or adversely his capital, capacity or character. (This, it will be noted, is a different visualization of the C's of Credit than found in previous treatments of the subject.) So the manager of credit sales analyzes the different pieces of credit information to ascertain whether they indicate a positive or negative condition for each of the four C's in turn.

Take first the factor of capital; what is the net effect of all the information on the applicant's capital position? Do the facts, brought out by the interview and the subsequent credit investigation, regarding his ownership of property and the obligations connected therewith, indicate that he is solvent or possesses a substantial equity when his capital ownership and capital liabilities are compared? In brief, when mortgages, bank loans or other obligations are subtracted from the value of the property owned, is the result a minus, a plus, or a substantial surplus? Finally, are *general* business conditions or *specific* conditions connected with the applicant's property tending in such a way as to maintain, strengthen, or weaken his capital position?

In retail trade, perhaps capacity is generally more important in judging ability to pay than capital position, although it is certain that an unfavorable capital position

*Other C's sometimes mentioned by writers are all included in these four. For example, "Collateral" is merely one kind of Capital.

must sooner or later adversely affect the capacity of the customer. Let us see now how capacity is analyzed.

Analyzing the Applicant's Capacity to Pay

The credit analyst critically examines the information before him to ascertain the relation between the applicant's income and the obligations to be met out of that income. Does a comparison of this income and outgo reveal a plus or a minus? Is there anything left to enable the applicant to open a new charge or deferred payment account and pay for goods bought on it? If so, how much of a line of credit is indicated?

In answering such questions, the more detailed and precise are the data on income and expenses, the more accurate and exact will be the estimate of the prospective customer's capacity to pay. In the field of retailing, probably the efficient small loan companies and other well-managed consumer lending organizations scrutinize income and expenses more minutely in the effort to determine paying capacity than does the average retail credit man. This is natural in view of the difference between lending money and selling goods.

Income.—Even when it is not possible to ascertain the exact size of the income from the applicant, from the employer or from other sources, the experienced credit man can usually make a pretty intelligent guess because of his accumulated knowledge of rates of remuneration for various positions in different lines. He knows also that this income is steady in some occupations while in others it is uncertain or subject to seasonal variations, and thus he can estimate fairly well the income of an applicant. However, it may be mentioned in passing that often those who have steady jobs with an apparently assured income (for example, government employees) may be, because of this fact, always just about loaded up to the limit of their ability to pay.

Expenses.—Where no specific figures on expenses have been secured, the credit analyst may still make a pretty

shrewd judgment as to whether or not the prospective customer is living beyond his income. For he should acquire a general idea of the rentals in different neighborhoods from his daily work or from real estate agents, and can find out how many people are supported by the applicant, the style of living, whether a car or cars are maintained, and so on. If the credit man will reduce the income of the prospective customer to a monthly basis and then subtract the estimated rent, heat, light and food, he should not have much difficulty in judging how much is left for the customer to spend in all other directions, including his own store.

The retail credit man, in sizing up the relation between the applicant's income and outgo, pays special attention to trade information which shows the stores at which the prospective customer has accounts, how long he has been trading at each place, how high his bills have been, how promptly he has paid, and how much he was owing each store at the time of the report. In studying this ledger experience to estimate paying capacity, several pertinent questions occur to the analyst.

How to use trade information.—How many accounts has the applicant; are all included in the trade information at hand? If the trade information covers what seems to be too few firms, the manager of credit sales may suspect that it is not complete, that certain stores where the applicant's record may be poor are not included, and that his total current indebtedness is understated.

How many accounts has the applicant with stores in the same line as the store to which application is now being made? If he already has more than a reasonable number of accounts with stores in the same line, and especially if the accounts run high or fairly high, it may indicate that his credit is practically or completely exhausted, that he is afraid, or not able, to make further purchases at competitors' stores, and that he is trying to exceed his actual capacity.

How do the balances owed now to firms covered in the trade information report compare to those owed in the past? If balances appear to be significantly increasing with no increase in income or change in other factors (for example, seasonal needs) to offset the rising tide of indebtedness, this may suggest that the debtor has already exceeded his capacity to pay.

How old are the applicant's accounts? It may be that all or many of them have been only recently opened. If they are all new accounts, the trade experience will not have covered enough time to show whether he is already involved to, or above, the limit of his capacity. If many new accounts have been opened recently, other things remaining equal, it may mean that the applicant has just started on a spree of overbuying and is plunging into debt beyond his capacity to pay.

How does the person in question pay his bills as shown by the trade information; are his pay habits prompt enough to meet the terms of the house to which he is applying for an account? If the person is shown to be slow pay, the credit analyst infers the former's capacity is probably over-taxed already.

Is the applicant's capacity at present the same as shown by the trade information, or has there been a change? This is a pertinent question when the information is not recent. It is also important even when the information is up-to-date if the accounts have been inactive.

What derogatory information in regard to capacity to pay is shown by the trade information? Notations of recent repossessions, suits, judgments, attachments and the like will indicate that the applicant's capacity to pay has already been exceeded.

Trends in conditions.—Finally, the credit manager gives attention to any items of credit information which might tend to indicate whether the applicant's capacity to pay as now estimated will increase, decrease, or be maintained.

Such questions as the following occur. Are changes in business conditions affecting or liable soon to affect the

applicant's capital position or income? How long has he held his present job? How are the line of business he is engaged in and the firm he is employed by being affected by any changes in economic conditions?

The information will show how long the person has held his present position and will indicate, therefore, whether it can be assumed, all other things being equal, that the job will be relatively permanent or temporary. The information will also reveal the type of job and thus suggest whether the applicant might easily secure employment elsewhere in the event of losing his present job. A knowledge of business conditions in general and in particular will enable the manager of credit sales to judge whether the applicant's capital or income, the line of business he is engaged in, and the firm he is employed by are being affected, or are about to be affected, by changes in economic conditions.

Such are some of the questions which guide the credit analyst as he critically examines every item of credit information to discover just what light it throws upon whether the prospective customer's capacity to pay is already exhausted or overtaxed or whether the latter still has, and will continue to have, enough capacity left to justify opening the account. The manager of credit sales must always remember that "buying in excess of ability to pay" is the most general reason for accounts being charged to profit and loss.

If the data analyzed yield a final plus result, indicating present and probable future possession of capacity to pay, the credit analyst proceeds to investigate what the information shows regarding willingness to pay.

Analyzing Willingness to Pay

Trade information, when up-to-date and comprehensive in regard to the firms and data covered, is valuable in analyzing willingness to pay. It reveals at one glance a fairly complete picture of the customer's actual character, indicating just what his willingness to pay is by presenting

a matter-of-fact record of his paying habits. Of course, in certain cases a slow paying record may be due not to unwillingness but to unemployment or some other cause beyond the customer's ability to control.

Since a man's habits almost never change abruptly but usually are pretty well fixed, varying but little over a period of time, the credit man ordinarily may assume safely that the prospective customer's willingness to pay is still, and will continue to be in the immediate future, just about as shown by recent and comprehensive trade information.

Use of trade information.—But, in critically examining a prospect's willingness to pay, the credit analyst not only weighs the trade information with certain leading questions in mind. He also checks the other credit information to see what additional light is thrown on the problem.

Some of the questions occurring to him may be mentioned here. A few of these appear to be repetitions of questions mentioned in regard to judging capacity to pay. They are. This is because certain questions illuminate not only capacity but also willingness to pay: the two primary bases of retail credit. Such questions are necessarily repeated in our treatment of credit analysis because we are endeavoring to split up this problem and consider each of its main parts as clear and distinct from the others.

The first questions are: How many accounts are covered by the trade information? How old are they? What lines are represented? Unless the information is complete it may present an untrue picture because the accounts included may be less representative of the willingness or unwillingness of the customer to pay than those that are lacking.

Unless the accounts are old enough to be considered well established, they cannot be regarded as competent to testify concerning willingness to pay. If there has been a rapid recent increase in the accounts which does not seem to have a sound explanation, the credit man may well wonder whether the applicant is not abandoning old habits of buy-

ing carefully and paying promptly and willingly for irresponsibility and unwillingness to settle bills promptly.

Finally, promptness in paying accounts of firms in certain lines, for example, public utility bills, milk bills, and grocery bills, and other bills which must be paid every thirty days under penalty of having credit cut off, cannot be taken to indicate willingness to pay accounts with the general run of retail establishments. On the other hand, if the applicant does not pay such accounts satisfactorily even though the bills owed are not particularly large, it is a pretty safe conclusion that he would not be a desirable credit risk for firms in other lines.

Possibility of changing pay habits.—Does there seem to be any tendency toward undue increases in the amounts owed or toward slowing down in pay habits? If so, it may mean that the person's character and attitude toward prompt payment is changing, that he is opening more accounts now with the idea of paying more or less when he pleases. Sometimes a person who has been a first class credit risk for years suddenly "goes wrong" and tries to secure as much merchandise on credit as he can before he is checked.

Is the applicant's present willingness to pay different from that shown by the trade information? If some of the accounts contained in the trade information are inactive they may indicate a disposition toward paying promptly which may be quite different from that now actually existing. The same false picture may result if the information is not of recent date.

Does the applicant pay as promptly as required by the terms of the firm at which he is seeking to open an account? If he pays much more slowly than required by these terms and there are no indications that he can be speeded up, his account will have to be rejected on this point alone for it is willingness to pay promptly, not mere willingness to pay, that matters.

What derogatory information concerning the applicant's character is shown by the trade information? Accounts

may have been closed, or placed in the hands of a collection agency, or suits filed because of unwillingness to pay. He may have been discharged in bankruptcy, which may be a significant fact for the credit man.* There may be notations regarding repossessions,† excessive returns of goods, disputes over bills, and other indications that the applicant's character may prevent him from being a satisfactory customer.

Use of other information.—Other data than the trade information may throw light upon the prospective customer's steadiness and his willingness to pay. What race or nationality is he? Where does he live? Is he married (happily married)? Does he own his home? How long has he lived in his present and past neighborhoods? How long has he held his present job? What is his occupation? What is his reputation?

The race or nationality may influence the attitude of the applicant toward paying debts promptly. Where he lives may be important for sometimes certain districts or neighborhoods are associated in the credit man's experience with consumers who are slow and unwilling to pay.

The married man, especially if happily married, tends generally to rank higher in willingness to pay promptly than the single person. This is also true of the home owner

*It cannot be stated as a hard and fast rule that a bankrupt should not receive further credit but certainly every case should be thoroughly checked and the list of assets and liabilities examined. The general feeling seems to be that if the bankruptcy was an attempt to get out from under real estate obligations, damage suits, or unwise signing of other people's notes which have brought about an unfortunate situation, this would be no bar to credit. On the other hand, if the liabilities represented retail accounts or obligations to professional people, there would be absolutely no basis for credit. Most credit men feel that until the slate has been wiped off by actual payment, the customer will have to pay cash. This is because in many instances the customer found it so easy to get rid of the first bunch of bills that the second attempt did not give rise to any qualms of conscience.

†Repossessions may not always mean that the customer has exceeded his ability to pay. Sometimes they simply mean that he was *unwilling* to pay after he had got what he considered more use out of the merchandise than the down payment made to a liberal house. Of course, it is possible that some repossessions by certain houses might be no reflection upon either the ability or willingness to pay on the part of the customer, but might be due to unsatisfactory service coupled with refusal on the part of the firm to make the matter right.

or man who is buying a small or medium size home as contrasted to the renter (he is probably "steadier" and more "settled" and not so liable to move suddenly or skip); of the person who has relatively permanent living habits as compared to the man who keeps moving about; of the man who has held a steady job as against the fellow who is frequently shifting from one job to another. People in some occupations tend to be better credit risks than those in others not only because of variations in capacity but because of differences in attitude toward payment of debts which are apparently associated with different occupations. A person with a fair or good credit rating may have a reputation of being rather "free and easy" or a "high-flyer." Such an account if accepted should be closely watched.

Trends in conditions.—Finally, the credit analyst will endeavor to determine whether any information at hand or available might indicate that changing conditions are affecting, or will affect, the prospective customer's willingness to pay. This is an extremely difficult task. Whereas the conditions which by changing might hurt the applicant's capacity to pay, by adversely affecting his capital position or income, are usually economic conditions and, therefore, fairly easy to apprehend and size up; those conditions which may, by changing, influence his character or willingness to pay are fundamentally moral and are extremely difficult to discover and evaluate.

However, investigation often reveals changes occurring in the home life or in the social life of a person which may cause the manager of credit sales to wonder whether danger signals are not appearing to warn of possible changes in character.

Thus, items in the credit information regarding the person's reputation may bring out the fact that recently friction has been developing in the home, or that the family (perhaps in moving to a new neighborhood) has begun to associate with a fast social set, or that the husband has begun to pay attention to other women, to gambling, or to other things which may indicate change in his character.

It should be mentioned, in passing, that severe business depressions not only affect the capacity to pay of consumers, but also affect the character of a great many. Often a person who has been a first class credit risk and has lived carefully, saving up so that he might some day enjoy "the fine things of life," finds his savings wiped out by a business depression and in resentment and disappointment determines that he will have the fine things anyway, whether he can ever pay for them or not. Also the spending, relief, and other policies of a government may profoundly affect the characters of its citizens with the result that in the case of a multitude of individuals their very slim moral balance is wiped out.

When the manager of credit sales has endeavored to analyze the risk, following the procedure presented in the pages of this chapter, he often finds that even after examining all the information relative to the applicant's ability and willingness to pay promptly, it is difficult to decide just whether to accept or decline the account. In making this decision, the facts and conclusions developed from the analysis of the risk must be supplemented by certain considerations which are presented in the following chapter.

QUESTIONS

1. How much investigation and analysis of the risk is necessary in opening a small account? a large one? an installment account as compared with a charge account?
2. What is your opinion of the value of credit rating books for checking the credit risk?
3. Explain the advantages of using the credit bureau as a source of credit information.
4. What five classes of information should a good "special" or "antecedent" report from the bureau contain?
5. What are the various kinds of reports available at your bureau?
6. "The applicant's credit must depend upon the four C's of credit." What are these and how are the first three related to the fourth?

7. What is your procedure in discovering the applicant's capacity to pay?

8. Explain your technique in analyzing the applicant's willingness to pay.

9. In studying trade information for the purposes indicated in questions 7 and 8, what are some of the questions or considerations to be kept in mind in interpreting it?

10. "Severe business depressions and also the spending, relief and other policies of a government may profoundly affect not only the *capacity* to pay of consumers but also the *character* of a great many." Discuss, giving examples from your own experience.

CHAPTER VI

ACCEPTING AND DECLINING APPLICATIONS

If the information in the credit analysis shows that the prospective customer is able and willing to pay promptly, the applicant is a first class credit risk. If, in addition, he can be made to pay in case it should become necessary, the risk would be called perfect. But such cases where the credit analysis points conclusively toward acceptance cover only a small percentage of applicants. The proportion of cases where rejection is clearly indicated is also small.

Doubtful Risks

In addition to these two small classes of applicants there are two large groups. In the case of the first group, all the information coincides pretty well to indicate that, although the person is not what we might call an ideal or a perfect risk, he doubtless is all right and little risk is involved. But in the case of the other large group of applicants, the information seems to be contradictory or to balance between counseling acceptance or rejection.

Now, we cannot generally take the attitude that all cases of this kind where there is any doubt of the risk should be summarily rejected,* for too many applicants are included in this category where the information apparently is fifty-fifty or equally for and against. Somehow those that are in reality good risks must be discovered, separated from

*A department store in Illinois has reported its experience in accepting up to 75 per cent of the applicants with poor credit records, including refusals by other stores. And the store's collection record is a good one, too. They believe there is a justifiable reason behind three out of four apparently poor credit risks. So no matter what the record of the applicant may be, the credit manager talks to the applicant at length, hears her reasons and investigates them. Most of the time it is found that some misfortune beyond the individual's control has been responsible for the poor record, and the account is accepted.

the bad, and accepted if the credit sales department is to do its part in securing new business.

Finally, decision upon whether to accept or reject an application of this type requires first of all a careful review of the information analyzed to see if anything has been overlooked or if any facts may be differently interpreted. That is to say, a thoughtful and searching re-check is needed. Secondly, it requires that the problem be weighed in connection with certain specific considerations which might justify the manager of credit sales in taking a chance on a border line case.

The manager of credit sales must always remember his job is to help sell merchandise as well as pass on credits and, while he should never become a gambler and take too many chances, there are many customers whose qualifications do not rate A1, who would be satisfactory accounts if properly handled and watched or limited in their purchases. It does not always follow that the manager of credit sales with a record of a large number of declined accounts is a good credit man. He may be depriving his house of sales which could have been saved by a little thought and diplomacy.

In this chapter we shall first discuss the fundamentals involved in reconsidering doubtful risks and then we shall examine the actual technique of the acceptance and declining of applications.

Reviewing the Case of the Doubtful Risk

Re-Checking the Credit Information

In re-checking the credit information, after having analyzed a credit risk, to discover just whether to accept or decline what appears to be a border line case, the credit analyst seeks to ascertain two things. He inquires whether there is missing some item of information which might answer his question and whether some item or items which are now stated in a general manner might, if made specific, solve the problem.

Getting more information.—For example, information regarding some important point like the applicant's business or source of income may be entirely lacking or information regarding salary or bank account may be vague or of a general nature. It may happen that in these cases if the business and source of income were learned or if the exact salary were ascertained or if a personal visit were made to the bank, the credit manager could decide definitely whether to accept or decline the risk.

Some items of information which are missing may concern such minor points as not to be of sufficient value to enable the credit man to forthwith make his decision even if they should be secured. But as he re-checks the information he may discover certain of the items missing are important enough to influence an immediate decision if they are now obtained.

Making general information specific.—The same is true of information which appears in general instead of specific form. Some information which appears in only a general or vague form may concern some factor not important enough to compel a decision even if the specific details were ascertained, while, on the other hand, getting the precise facts behind some other item of information may be important enough to enable a clear cut decision.

Seeking a different interpretation.—In reviewing the credit information the analyst is not only on the lookout for these things but in addition seeks to determine whether or not a different interpretation than that originally made might be put upon certain items. Thus, the trade information may at first glance seem to be contradictory as to whether the applicant is exceeding his capacity or is slow and unwilling to pay. A re-check may show what appears to be contradictory information is in reality in agreement or that certain contradictory information should be disregarded.

Take, for example, the question of weighing the matter presented by certain houses reporting the applicant to be

prompt pay and others reporting him to be slow or undesirable. Now, there are differences as to what is regarded as prompt or slow by different lines and by different houses in the same line. The report of one house may often mean much more than the report on the applicant's pay habits by another.

In securing the ledger experience of retailers and in rendering reports, the practice of the better retail credit bureaus is to encourage reporting the exact method of payment, for example, in case of monthly charge accounts—"pays 30 days" or "pays 60-90 days," instead of reporting the customer as "prompt" or "slow."

Reporting that the person is slow, or pays in 60-90 days, in certain lines or by certain houses may mean little since those lines or houses do not enforce prompt payment. On the other hand, if some firms report the applicant to be slow this may mean little to the credit men of certain stores which are very liberal, while reporting him to be O. K. may mean but little to the credit manager of a firm which is much more strict than those making the reports. The credit manager should always consider the source of the information he receives.

Again, the relative sizes of the accounts that are reported slow or prompt must be considered. The customer may be paying all of his little bills promptly and letting the large ones slide. Or, contradictions may show up which are due to the fact that promptness is reported for recently opened or active accounts while slowness is reported for old or inactive accounts. The manager of credit sales should always be on the lookout to observe anything unusual like a sudden recent increase in the number of accounts opened. Further, if practically all of the accounts agree in reporting promptness and only one or two apparently contradict this general experience by reporting the customer as slow, the reason may be that there is a dispute concerning these latter accounts.

Misinterpretation of applicant's borrowing.—Finally, the manager of credit sales may have misinterpreted the fact shown by the trade information that the applicant is borrowing from a small loan company or other consumer lending agency. Managers of credit sales often misinterpret such information, assuming incorrectly that the amount owing the finance concern should be treated the same as if it were owed to a regular bank or a store and, therefore, due in 30, 60, or 90 days.

This is not true. The amount borrowed from the consumer lending agency is repayable in installments over a period of 10, 12, or 20 months, and, therefore, only a small fraction of the amount shown by the credit information will usually be payable during the following 30, 60, or 90 days. A correct interpretation of this obligation of the applicant may show the manager of credit sales that the former's capacity to pay is much larger than he previously estimated it to be. Of course, if the applicant is owing past due accounts at stores as well as loans at a finance agency, it may mean that the loan has not been used for its proper purpose of paying past due accounts of retailers and that the applicant is exceeding his capacity.

The reviewing of the credit information to see if it may possibly be differently interpreted from the meaning given it by previous analysis may show that, after all, many of the apparently contradictory items may be disregarded or that they are in reality not contradictory at all. From this re-check it may develop that the information actually does not end up in a fifty-fifty balance but indicates a definite acceptance or rejection of the application.

Attitude in case of second interview.—It may be necessary for the credit office to have a second personal interview with the applicant in order to secure some important missing information, to get the precise details behind some information which has been received in a too general form, or to work out some specific understanding in regard to the use of the account.

Some such simple form as the following may be sent to the customer:

> Thank you for your recent application for an account at our store.
>
> Will you please call soon so that final arrangements may be made?
>
> Very truly yours,

If such an interview is held the manager of credit sales must carefully guard himself against being too willing to hear the prospect explain away the doubtful facts and should rather take the attitude of checking closely every doubtful factor and requiring the applicant to completely satisfy him.

It is so easy for a consumer to give apparently frank, truthful, and reasonable explanations for just about any unfavorable condition showing up in his credit record. If the credit man has been too afraid of insisting upon details or inquiring about "personal affairs" in the first interview, he can now feel justified in probing to the limit since the problem of accepting or declining the application has now definitely developed into a real question of possible loss to the firm.

Once the credit man has, after a careful analysis of an application, decided to decline the account, he should never allow himself to be "talked into" changing his mind and accepting the account either by the applicant, the salesman, or anyone else.* When he does, he is not only exhibiting a lack of backbone to back up his judgment, but inviting trouble, as experienced credit men claim 98 per cent of such changes prove to be undesirable accounts.

It is well to be thorough in the first interview and thus avoid calling the customer in for a second time, which may

*If the store owner insists on accepting the account, he should be requested to make a written memorandum so that he may accept the responsibility if the account becomes slow or turns into a bad debt, instead of blaming the credit manager after over-riding the latter's decision.

seem to the applicant to add insult to injury if the account is later declined.

Special Considerations in Accepting Risks

The relatively large class of applicants for which the credit analysis does not indicate definitely and clearly either acceptance or rejection may be handled as we have indicated by a re-checking and re-interpretation of the information. This procedure will enable the manager of credit sales to definitely accept or reject a large proportion. Still others of this class may be accepted due to special considerations which we shall now examine.

Even though final analysis of the credit risk shows the prospective customer to be apparently lacking in the ability and willingness to pay promptly usually required of a "good credit risk" as defined by the firm, the account may be opened because of any one of a number of special considerations.

Slow-moving merchandise.—First of all, it may be that the merchandise the applicant wishes to buy on credit is something the firm wishes very much to rid itself of. For example, the article may appeal to but few people and may have moved very slowly; it may be getting old and obsolete and depreciating in value or it may be out of season.

The store may feel that mark-downs may be necessary sooner or later to dispose of this merchandise. In such cases the possible mark-downs may be balanced against the possible slowness or loss represented by the risk in the prospective customer, and as a result the credit man may decide to take a chance and open the account.

Some stores have a habit of unloading merchandise on their customers by relaxing credit standards to escape a bad merchandise situation. This is particularly so where there is a high inventory and high prices when the selling market is definitely going down, and the store feels that

though the customers take several months to pay their bills instead of the usual 30-60 days, there would be less loss than by taking the mark-downs that otherwise would be involved.

There seems to be a tendency for merchandise buyers to get out of their mistakes by insisting that the credit sales department get rid of the goods for them by accepting and fostering slow terms. Even though it may be distinctly understood by the store management that losses are to be larger and that they should be considered as more of a merchandise loss than a regular credit loss, when such arrangements become habitual they constitute an abuse of credit.

High margin merchandise.—Again, the item which the applicant wishes to buy on credit may be one which carries an especially large mark-on. This situation may influence the credit sales department to take a chance. These cases, of course, are exceptions to the rule, and are not considered to be sound or ethical as a regular practice by leading credit men.

Should accounts be opened under these circumstances, it must be understood that they are for that particular purchase only, and not regular accounts. It should be noted, in passing, that because of their larger average mark-on some firms can be much more liberal in accepting credit risks which other firms doing business upon much lower margins must turn down.

Direction of credit policy.—Another consideration which may cause the manager of credit sales to accept or decline a risk which is not plainly as good as might be desired is the credit policy of the firm. The store may be at the time in question pursuing a policy of expanding its credit sales volume or its policy may be simply to maintain or to contract that part of its business. In the first case the credit man might feel justified in taking a chance on accepting the risk while in the latter situation he would feel inclined to reject border line cases.

The acceptance or rejection of the border line account may be governed to a certain extent by the store's percentage of bad debt loss. For example, if the bad debt loss percentage on budget accounts is running lower than the management considers satisfactory, more liberality may be exercised in taking on accounts, while should this percentage be running higher, the tendency would be to refuse less desirable risks.

In addition to the above matters to be weighed in deciding upon more or less doubtful cases there are a number of special considerations which are more especially related to either the ability or the willingness of the applicant to pay. Let us notice first some special considerations which may cause the manager of credit sales to accept an account which seems to be just a little weak in the first factor: *ability to pay.* Such an account may be opened in consideration of any one of the following arrangements.

Smaller credit limit.—First, the credit manager may set a smaller credit limit than the one he previously had in mind for the account. This may mean reselling the customer on a less expensive charge or installment purchase than the one he intended to make. If it is a case of installment credit the account may be opened only in consideration of a larger down payment than is usual. This will mean that the applicant will have less to pay during the credit period and a smaller ability to prove.

Requiring down payment.—Again, even if the account opened is a charge account, it may be possible to get a down payment or several small weekly payments before the purchase is delivered. This reduces the risk due to any weakness in ability to pay.

For example, if a customer wishes to get a $30 suit on open account and if the manager of credit sales wonders whether the applicant really has the ability to pay $30 within sixty days (assuming that those are the terms of the store), it may be possible to get the new customer to pay $10 down at the time of taking the suit, which would leave

$10 to be paid next month and $10 payable the following month. This reduces the risk due to possible weakness in ability to pay because it means that the store will be risking at the start only $20 as compared with $30.

Or the store may secure a down payment and agree to send the merchandise later C. O. D. when receipt of income will put the customer in funds.

Budget plan.—Instead of accepting the applicant for an open account and requiring a down payment, a definite budget plan may be used.

Refer accounts.—Or if the manager of credit sales is rather afraid of the paying ability of the applicant, he may accept the account by giving it a "Refer" rating to protect the firm against the applicant's exceeding his ability. In this way the account will be closely watched and each of the purchases may be passed on by the credit manager, his assistant or a refer authorizer.

Agreement.—Or the account may be opened after an agreement between the credit manager and the applicant that the latter will not open any other charge or installment accounts without first consulting the former.

Lay away.—Finally, the customer may be sold on the lay away plan, so that he completes payment before getting the merchandise. This plan assures him of the particular goods he has picked out and upon the selection of which he may have spent considerable time, whereas it may be claimed that opening an account would cause some delay due to the credit office being temporarily overburdened with applications.

If the prospective account appears to be probably weak in regard to *willingness to pay* rather than lacking in ability, arrangements like the following may justify opening the account.

Opening after education.—In the first place, the credit man may open the account because he feels that he has persuaded the applicant to pay *his* store promptly. This

might apply to a customer who pays some bills slow and some promptly, his paying habits being not due to lack of ability or willingness to pay promptly but to lack of credit education.

That is to say, the customer may not be intentionally slow-pay; it may be that he is just negligent or that he does not realize the necessity of prompt payment. If this is true, the manager of credit sales may open an account with the understanding that his store is to be paid first and to be paid promptly as agreed.

In such cases the letter sent to the new customer announcing the opening of the account should continue the emphasis placed upon the strict understanding which was arrived at in the credit interview, as illustrated in the following example.

NOTIFICATION AFTER EDUCATION

It is a pleasure for us to advise that an account has been opened in your name. We consider it a privilege to be given an opportunity to serve you.

Our terms with all alike are strictly as follows:

> All purchases made in any month are due and payable by the tenth of the month following that in which the purchase was made.

We invite you to use your account on this basis, as these are the only terms upon which we extend credit.

Thank you very much for the confidence you have shown in us.

Very truly yours,

Down payment and willingness.—Secondly, securing a larger down payment not only reduces risk as far as ability to pay is concerned, but also makes the customer more willing to pay because he has a larger equity in the merchandise.

Shorter credit period.—Thirdly, the credit period may be made shorter than that allowed to old customers. For

example, the account may be opened only upon the clear understanding that it is to be paid in thirty days instead of the usual sixty (if such are the usual terms of the store). Thus, the account will be taken up by the collection routine at the end of thirty days instead of waiting until sixty days have elapsed.

More frequent payments.—Fourthly, the account may be opened upon consideration of weekly or semi-monthly payments (to coincide with the pay days of the applicant) instead of the regular monthly payments.

Getting security.—Finally, the applicant whose willingness to pay promptly is not absolutely clear may be accepted if by the use of any one of a number of devices the credit manager makes arrangements so that the applicant can be *made* to pay or to secure the store.

If the applicant is introduced by an old customer it may be possible to charge the goods to the latter's account, or have him guarantee payment of the applicant's purchases until the former has had enough experience to test the factor of willingness to pay promptly. It should be mentioned, however, that many credit men do not like guarantees of this type for often the guarantor has to be called upon to make good his friend's account and becomes resentful at the store. Other methods of securing the store against unwillingness to pay are cognovit notes, leases, conditional bills of sale, assignments, and notes with good indorsers.

As a result of rechecking the credit analysis and of weighing certain special considerations the manager of credit sales is enabled to come to a definite and clear decision to accept or reject a great many applications which at first glance are apparently border line cases. It is ability to reach a clearcut decision upon such cases that distinguishes the exceptional credit manager from the ordinary credit man.

Establishing the Credit Limit

Whenever a charge or deferred payment application is accepted, a "credit limit" to the amount which can be

bought on credit in any charge or contract period should be placed on the account. This is to prevent overbuying. The amount allowed depends upon the applicant's income and current obligations, the number of dependents and similar considerations. If too large an amount is allowed, the customer may be soon found to be buying beyond his ability to pay as agreed. If the limit is set too low, too many refers may result with consequent unnecessary work and probably customer dissatisfaction.

Credit limits are not rigid limits, for stores generally allow the billers to post as much as twenty-five or fifty per cent more than the limit set before the authorizers begin referring charges. Perhaps some such phrase as "line of credit" should be used in place of "credit limit" since the amount of credit actually allowed is flexible and not strictly limited. The fact that the books may show certain customers exceeding the limits which have been assigned them is no indication of danger if those accounts are paid promptly.

In the last analysis, the principle to follow is that the credit limit is ultimately determined not by the credit man but by the customer—it is the amount the customer proves by his payments that he can pay for in the period of time allowed by the store. That is to say, if he has been allowed to buy up to $50 but has never paid more than $25 per month (and if the store's terms are honestly 30 days) his limit should be decreased from $50 to $25. And *vice versa,* where a customer's limit was originally scheduled at $50 and it has been found that he has been charging, and paying $60-$70 a month promptly, there should be no reason why the limit should not be raised to $75 or $100. This makes a better situation all around and cuts down the refers which are a nuisance in any establishment.

The securing of credit information and its correct interpretation have occupied first place in our thoughts during the preceding three chapters and in the pages of the present chapter. Now we may turn to the actual operation of accepting and declining applications.

Procedure in Accepting and Declining

The Actual Acceptance of the Application

Three main questions call for our consideration in discussing the actual operation of accepting applications. Who should be notified? What method should be used? What should be the purpose of the messages of acceptance?

Who should be notified?—In answer to the first question, it is obvious that the applicant himself or herself must be notified. Guarantors, in case any are required, should also be notified of the opening of the account.

Should the husband be notified of an account opened in his name by his wife? It appears that most credit departments do not so notify husbands. Yet unless the wife is independently a fully responsible risk the safe policy to pursue is to inform the husband. Some stores open such accounts in the name of the husband and mail acknowledgment to the husband at the business address.

Any credit man who follows this policy soon finds that he receives letters from husbands who were totally ignorant of the fact that accounts were being opened in their names. Some of these communications will be in the nature of protests while others will express satisfaction with the arrangement. Of course, no communication will be received from the great majority of husbands notified.

Notification of the husband makes it possible to settle his responsibility in the matter of the account. The communication to the husband should be sent to the business address since there is always a possibility of its being intercepted if mailed to the home address. It can be worded in such a way as not to cause resentment or difficulties. For example, it may take the theme of thanking the husband for his family's patronage or it may invite him to take advantage of any of the departments or services of the store which cater to men.

Method of notification.—Whether the new customer is first informed of the opening of the account orally in the

store soon after the credit interview or whether he is told of the acceptance of his application over the telephone, he should be formally notified by mail in all cases.

This formal notification may be in the shape of a personal letter, a form letter, or a formal card. Depending upon the personality of the store and the type of its relationship with the customers, the personal letter or the formal card may be the best method of announcement. Either of these two methods is usually superior to a mere form letter.

Purpose of the announcement.—What should be the purposes of the announcement? Should it be: 1. a mere formal notification of the opening of the account and a statement of terms; 2. a notification plus a welcome to the store and an attempt to create goodwill; 3. a notification written in such a way as to express personal interest in the customer; 4. a notification plus an educational message?

Two things are clear. The announcement must notify the applicant of the opening of the account *and also clearly state the terms.* But the announcement may go beyond this mere notification, which is the first type referred to just above, and attempt to fulfill other purposes. It would seem

NOTIFICATION WELCOMING THE CUSTOMER

> It is a pleasure to inform you that a Monthly Account has been opened for you in accordance with your recent request.
>
> This Monthly Account will simplify your shopping at Blank's. No waiting for change, no need to carry large sums of money to pay for each purchase, no C. O. D. bother on telephone orders.
>
> The terms are convenient, all charges for each month being billed at the end of the month and payable not later than the tenth of the following month.
>
> We are looking forward to the privilege of serving you, and you will find our personnel ready to assist you at all times.
>
> Yours very truly,

that the second kind of announcement mentioned might be used by all stores, for this type simply endeavors to secure the additional purpose of welcoming the new customer and building goodwill, as in the example shown on page 123.

The third type can be used only by certain stores for it calls for a personal letter (which may be made up for the most part of form paragraphs) individually written to each new customer. Such a personal communication will if possible make reference to some personal interest of the new client or compliment him upon the special purchases made, or in some other way indicate that he is being written to as a particular person and not just as an average customer. Such an announcement may be practicable only for small stores and for certain stores which build up a very personal relationship with their customers.

For example, if the new customer is a newcomer to the city, the letter announcing the opening of the account may express personal interest by referring to this particular fact, as in the following example.

Notification Expressing Personal Interest

It is a pleasure to advise that a charge account has been opened for you in accordance with your recent request.

We are glad you have decided to make this city your home, and we are looking forward with pleasant anticipation to your first visit to our store. You will be most cordially received and welcomed to the hospitable, homelike atmosphere we strive to maintain for the comfort and convenience of our friends.

In the future when shopping at Blank's, just tell the salesperson to "Charge it." A statement will be mailed on the first of each month, following the month of purchase, and will become due on the tenth.

We feel sure that this added convenience will assist in making ------------ the cordial city and Blank's the friendly store.

Very truly yours,

The fourth type of announcement has been found by a number of progressive firms to be extremely valuable. It consists not only of notifying the applicant of the opening of his account, restating the credit terms of the store and welcoming the new customer, but also encloses information of an educational nature. This information concisely describes how to use the account correctly, mentioning the problem of returning merchandise and the firm's policy in regard thereto, and indicating the procedure to follow in case difficulties or complaints of any kind arise. This educational matter may be set forth upon a card or folder enclosed in the letter of notification.

It will be noted that the various types of announcements referred to above are not necessarily mutually exclusive. The actual notification used by a firm may represent a blending of one or more of these types depending upon the purposes the firm wishes to achieve in the message sent to its customers.

Many large stores provide their customers with either a signature card, a coin carrying the number of the account, or a Charga-Plate (see pages 147-150), for use as a means of identification when making purchases. These arrangements are usually not necessary in the case of smaller stores. When such means of identification are used, it is desirable to send them to the customer by registered mail with return receipt requested to be certain of their prompt receipt by the persons for whom they are intended.

Many store owners believe it desirable to have the notification letter signed by the store's president, while others feel that inasmuch as the manager of credit sales is the individual with whom the customer will be in touch if the account is not properly cared for, it is logical to emphasize his position by having him sign the letter.

Declining Accounts

Correct procedure may be more difficult to achieve in declining an account than in accepting one, and care should be taken to follow certain fundamental principles.

Method of announcement.—First of all, by what method should the applicant be informed of the rejection of his account? The information may be communicated to the applicant by mail, using a personal letter, a form letter, or a formal card. This method consumes very little time and effort.

On the other hand, the applicant may be declined orally. He should not be called by telephone and informed of his rejection, but either the telephone or a letter may be used to request the applicant to call at the credit office. Some stores never use letters to decline accounts, handling this matter only through personal interview at the store.

Content of rejection message.—What should be the content of the message of rejection? In rejecting applications by mail the communication may go no further than to state that the account has been declined. But it is usually worth-

DECLINING ON INSUFFICIENT INFORMATION

Your application for a charge account with our store is a compliment to our efforts to give good value and good service, and we sincerely thank you for the preference shown.

As is the usual custom before a new account is opened, we have striven to acquire information that would serve as a basis for credit. Such information as we have thus far obtained does not permit us to form a definite conclusion, and for the present, therefore, it is not possible to pass favorably upon your request.

We realize that misunderstandings sometimes occur through trifling matters which, if particulars were known, would have little or no bearing in the consideration of one's credit standing, and if you feel that our action is not warranted, we shall be glad to have you call so that a better understanding may be achieved.

In the meantime, we hope that we may still be permitted to supply your wants on a cash basis and that we may continue to merit your good will.

Very truly yours,

while to make an attempt to get the customer to come to the store with his cash business. Furthermore, proper application of psychology requires that a letter declining an account should begin and also end on a pleasant note, the information that the account has been declined being buried in the middle of the letter as in the examples on pages 126-127.

Sometimes the letter of rejection may refer the applicant to the credit bureau, especially if the information received from the bureau was derogatory rather than merely insufficient, and thereby shift to it the task of explaining to the applicant the reason for his rejection and also the job of giving him an educational talk upon the sound use of credit. An example is shown below.

Declining on Derogatory Information

Your recent application for a charge account is gratefully acknowledged and it has been our pleasure to give it the most careful consideration.

The information which we have been able to secure, however, is not sufficient to permit us to form a definite conclusion at the present time, as the Blank Credit Bureau, which is the central clearing house for all Blank retail credit data, discloses some question about your credit accounts.

May we suggest that you call personally at the Bureau, Third Floor, the Chamber of Commerce Building, and see Mr. --------, the Secretary, who will be glad to go over your records with you and adjust any errors.

We appreciate the opportunity you have given us to serve you, and we thank you for your cash patronage. You will find our personnel ready to assist you at all times, and it is our hope that this pleasant relationship will continue.

Very truly yours,

In a letter declining an account, the way should always be left open to the customer to explain either to the credit manager of the store or to the manager of the credit bu-

reau. In other words, the letter should not merely turn down the customer and let the matter rest, but should invite him to reopen the matter if he desires.

In case the applicant is declined orally upon his call at the credit office, the manager of credit sales has a chance to endeavor to secure the person's cash business and also an opportunity to give him some credit education. Too frequently, however, the oral interview consists of nothing but a statement of rejection. Credit men do not often enough try to point out the advantage of cash or "lay away" purchases at the store with the future prospect of opening the account.

Educating in declining accounts.—But the chance and the duty in this oral rejection of the account to give the person some credit education are even more frequently overlooked. All too generally the credit man endeavors to take the easiest way out.

One of these methods is to slide out of the matter gradually. This is done by telling the applicant that "sufficient information has not yet been received" or "there has not been enough time yet for complete investigation" and putting him off again and again as he inquires about his application until he takes the hint.

Another method of choosing the easy way out is to promptly decline the account but to fail to give the real reason therefor. Thus, the applicant is told that "we are not just at present able to open any more accounts" or that "information is not sufficient to enable us to open this account" and similar statements. Some credit managers never actually turn down an account; never write a letter declining an account. Instead, they set the down payment so high or make the terms offered so strict that the customer turns himself down.

Such procedure, of course, makes it very easy to handle the matter without much possibility of giving offense to the consumer. But certainly such tactics represent a disservice to the retail credit structure of the community. For

here is a person who needs education in the sound use of credit. If the duty of educating this man is not to be performed by the credit man declining the account, who is going to do it? And when will there be a more opportune time?

Responsibility for educating declined applicants.—Where the credit man refuses to discharge this duty because it is distasteful to him or because he is afraid of offending the consumer, he should at least frame his speech of rejection in such a way as to cause the applicant to call at the retail credit bureau. The bureau manager can then talk frankly to the applicant. In brief, the function of educating the undesirable credit risk should be assumed either by the credit sales manager or the credit bureau manager.

When it is necessary to decline an application, the situation is due to the fact that the applicant lacks ability or willingness to qualify for credit and he should be frankly but kindly told so. If the credit man tells him that his past record is not such as to justify an account, a service to retail credit is performed. Further, the credit man can tell the latter just how he can get into such a condition as to qualify. With this information can be coupled the statement that in the meantime the store will be glad to accept business upon a cash basis, and the advantages of trading at the store can be pointed out.

Often it is possible to have a heart to heart talk with the consumer, especially the young person, and to give him a real education in the sound use of the credit privilege. He should never be told definitely which merchants or other persons have reported on his credit nor just what specific information has been received, but should be referred to the credit bureau if he insists upon learning such details. The information furnished by the bureau is for the confidential use of the store and is not to be disclosed to customers.

With this chapter we complete our discussion of the subject of Book I: Securing New Business, the first of the three major phases or functions in the technique of success-

ful retail credit operation, and are ready to study the second main division or function: Controlling the Account.

QUESTIONS

1. What should be the procedure in re-checking the credit analysis of a borderline applicant for credit?

2. What special considerations might lead you to open an account for a borderline applicant?

3. "Some stores have a habit of unloading merchandise by relaxing credit standards to escape a bad merchandise situation, feeling that the losses from slow payment and bad debts would be less than the mark-downs otherwise necessary." Is this a sound practice? Discuss.

4. What principles should be followed in setting credit limits?

5. Who should be notified of the opening of a new account? Why?

6. What purposes may be achieved by a good notice acknowledging the opening of an account?

7. What arguments may be raised for and against declining accounts orally? By telephone? By letter?

8. What objectives should be attained in declining an account?

9. "The function of educating the undesirable credit risk should be assumed either by the credit sales manager or the credit bureau manager." Which do you feel should assume the burden? Why?

10. Should the declined applicant be informed by the credit man that the reason for declining was receipt of information that he had a loan at the State Small Loan Company or that he was slow pay at the Imperial Furniture Emporium? Why?

BOOK II

CONTROLLING THE ACCOUNT

CHAPTER VII

AUTHORIZING PURCHASES

(Making Out the Salescheck; Identifying the Customer)

In Book I we examined the first of the three main divisions or functions of retail credit work. In this consideration of Securing New Business we traced the operation through its four principal steps: from the securing of applications for charge or deferred payment accounts, through interviewing the applicant and then investigating and analyzing the credit risk, to the acceptance and rejection of applications.

As a result of this initial stage of credit sales department work, accounts have been opened and placed upon the books of the firm.

The Second Main Function

Now, the immediate problem is to control those accounts for the mutual benefit of the store and its customers. This second major phase of credit management, Controlling the Account, will occupy our attention in this and the following chapters of Book II.

In passing, it is well to recall that this second division of credit work, as well as the final principal section of that work (Collecting), is based upon the foundations laid in Securing New Business. To the extent that these foundations are poorly constructed (for example, because of failure to secure complete credit information or to critically analyze and evaluate information, sources of information and special considerations) both control and collections must suffer.

In interviewing the applicant, investigating and analyzing the credit risk, and in the final weighing of the information together with special considerations, the manager of credit sales should have proceeded in such a manner as to

secure a thorough knowledge of the customer to guide him during the whole period of control and collection. That a very large proportion of accounts get upon the books and then augment the problems of control and collection because such thorough knowledge was not obtained at the outset is, of course, too well known.

The Problems of Control

Just what does the function of "controlling the account" mean? What does it consist of? What are the problems included in it?

Controlling the account signifies, of course, controlling the *use* of the account. It is obvious that retail credit accounts are like any other instrument in that they can be beneficially used or they can be abused and misused. Experience with charge or deferred payment accounts indicates that the tendency will be in the latter rather than in the former direction unless some system or arrangement is provided to control, regulate or supervise the accounts.

This system or set of arrangements for controlling accounts has both preventive and promotive purposes. Its first general purpose is to prevent abuse and misuse and to protect the store. Its second main object is to promote full and correct use of the accounts. "Controlling the accounts," as we are treating the subject in this book, consists of setting up and operating such a system of regulation or control.

The problems to be met in controlling accounts are many and varied, but they may be grouped into several main classes. First of all, there are the everyday or *routine problems* which touch *every* account served during the day. These are dealt with in this and the following chapter on "Authorizing Purchases." Secondly, there are the *special problems* of control which rise from time to time in connection with *some* of the accounts (for example, demanding of discounts by some customers, excessive returns of goods by others, and so forth). These are treated in Chapter IX.

These first two classes of problems require preventive or protective measures. The third class of problems in control demands promotive arrangements for it is concerned with encouraging full use of credit accounts. This subject is examined in Chapters X and XI on "Credit Sales Promotion."

Let us now begin our investigation of the everyday or routine problems of control and discuss the system of authorization set up to meet them.

The Everyday or Routine Problems of Control

Just as soon as a new charge or deferred payment account is opened certain immediate and general, or routine, problems of control arise in regard to any purchases made. And these general problems will come up again every time a customer makes a purchase on credit. What are they? They are three in number.

First, the customer must be promptly and accurately served. Second, she must be correctly identified to prevent unauthorized buying. Third, she must be prevented from overbuying or from exceeding restrictions placed on the account.

In brief, purchases must be released speedily and accurately but the store must be protected and expense restrained. The system or arrangement set up to meet these routine problems is called the authorization system. Authorization is that function of the credit department which is concerned with approving the credit purchases made by customers. As a result of authorization, merchandise to be delivered to a customer is passed either as an approved credit or as a C. O. D. purchase.

To illustrate the above, let us take the case of a customer who has just selected some merchandise to be charged. She wishes it to be speedily released to her if it is a "charge-take" transaction or promptly delivered if it is a "charge-send" item. And the matter must be handled accurately also; for example, no customer is pleased to have a credit purchase arrive erroneously marked C. O. D.

But before the customer can be pleased by speedy and accurate release of the merchandise she has chosen, she must be satisfactorily identified. Otherwise unauthorized persons might buy goods on existing accounts or on nonexistent accounts. Furthermore, the goods cannot be released by the store until it satisfies itself that this purchase added to the previous balance will not constitute overbuying or violate restrictions placed on the account.

The Essentials of an Authorization System

Now, in order to take care of these three everyday problems of credit control a system of authorization is organized stretching from the salespeople on the floor to the credit sales department. Such a system to be successful will be characterized by the following five main essentials:

1. Accurate saleschecks.
2. Some means of satisfactory customer identification.
3. Efficient communication between sales floor and authorization stations.
4. Scientific filing and indexing for authorizing.
5. Efficient authorizing personnel.

In the above listing the logical sequence of the main steps in the authorization process is indicated: 1. making out the salescheck, 2. identification, and 3. "passing on" or "checking" the purchase.*

First, there is the making out of the salescheck (and often also the identification or an attempt at identification) on the sales floor. Then the salescheck is sent to the authorizing station or the information on it is communicated to the authorizers (unless the purchase is a small one which the salesperson is allowed to authorize herself). Finally, the authorizing personnel (which may complete the identification) "checks" the charge purchase, and makes its decision.

*The "passing on" or "checking" of the purchase in the authorization function is usually done in advance in the case of certain types of deferred payment accounts such as plans under which a book of coupons is sold on installment terms, the coupons presented by the customer in making a purchase being treated as cash. This is one kind of "pre-authorization."

Such, in general, is the process of authorization. It may be very short, especially in a small store as compared with a large establishment. Even in a very large house the authorization process may be extremely brief in case of small "charge-take" purchases, for the salespeople may be allowed to release such purchases immediately upon what is considered satisfactory identification. On the other hand, the process may be quite long and cover many minor steps before it is completed.

Let us now examine the five main essentials of the authorization system in order, noting the differences in handling the two main classes of credit purchases: charge-take and charge-send.

Making Out the Salescheck

Requirements for Accurate Saleschecks

If speedy and accurate authorization is to be secured it must start with accuracy in the matter of saleschecks. It is not the particular form but the making out of the salescheck which is in question here. A satisfactory salescheck will fulfill the following five requirements:

1. It should be completely filled out. This calls for, among other things, the *full* name and address of the customer, the items and the amount of the purchase.

2. It should be legible. Poor handwriting often leads to confusion and delay. Printing the last name of the customer or the first letter apparently helps to facilitate the work of the authorizers.

3. It should be orthographical. That is, words should be correctly spelled and correct initials given.

4. Information should be entered in the proper places. For example, when figures are not entered in the proper columns, the authorizer may mistake the amount of the charge. Also care must be taken to make correct entries when goods are charged to one person but sent to another (as in case of gifts).

5. The identity of the buyer should be noted. That is to say, if the purchaser is the person in whose name the account is carried, the notation "Self" may be made, while if it is someone else, the name of this buyer should be completely and correctly filled in. This procedure will indicate just who made each of the purchases on an account (which may be valuable in account analysis; see Chapters X and XI) and helps to protect the house against unauthorized buying.

Need for Training Sales Force

Deficiency of saleschecks in any of the above five requisites may cause considerable delay and confusion or even loss, and therefore the sales force must be carefully trained in this matter of making out saleschecks in a satisfactory manner.

In case some salespeople or floor managers are negligent, the faulty salescheck may be sent back to them with a form attached indicating the corrections needed. If the delay thus occasioned and the insistence upon their completing their job does not lead these employees to save their time and energy by doing the thing right in the first place, more severe measures may be taken.

Identifying the Customer

When a customer completes her selection and nonchalantly says "Charge it," undoubtedly the first questions which arise concern identification: Who is she? Has she an account at this store or has she authority to buy on some existing account?

Where Should Identification Be Made?

The question also arises as to whether this identification shall be made on the floor or in the credit office. Sometimes it is possible to make complete identification on the sales floor. Other times identification cannot be made, or at least cannot be completed, until the matter is checked by the credit office. And sometimes there is a failure to cor-

rectly identify the buyer whether the attempt is made on the floor or in the credit office with the result that an unauthorized purchase occurs.

It is to be noted, of course, that the problem of identification is somewhat different in the case of charge-send purchases and charge-takes. All stores feel that when goods are sent to the address of a credit customer no questions need be asked on the sales floor as to identity since there will be adequate time to check this before the goods leave the possession of the store. In the case of charge-take purchases, however, identification must be made in a very short space of time and often it must be made on the sales floor.

Mistakes in Identification

There are three main types of mis-identification. The buyer may claim that she has an account which in fact does not exist. She may claim that she is the person in whose name an existing account is carried. She may claim that she is an authorized buyer on an existing account. Once in a while, but not frequently, the identification system breaks down and a mistake is made in one or the other of these cases with the result that merchandise is incorrectly released. This happens perhaps more frequently with "charge-take" purchases than with "charge-send" sales.

Various systems are employed by retail stores to cope with the problems of correctly identifying customers before merchandise is released. The type of plan used depends to a large extent upon the size of the store in question. There are four main types of such systems. The first may be called personal identification. The others are identification by coin, signature, and Charga-Plate.

Personal Identification

First of all, the credit customer may be personally identified, any one of three methods being used. For example, the manager of credit sales or an employee of the credit

sales department may be called upon to identify the customer. This, of course, is suitable only in small stores.

On the other hand, the salespeople may be allowed to identify customers at least when the purchase does not exceed a stipulated small amount. This system is used to some extent by relatively large stores and to a very appreciable extent by smaller stores. In the case of these latter stores personal identification by salespeople (at least for small purchases) is undoubtedly more efficient than placing the burden of personal identification for each person upon a credit manager or one of his employees. The sales personnel of a relatively small store soon come to know *personally* an extremely large proportion of all old credit customers, perhaps practically every one of these established clients.

Finally, in larger stores the section managers or members of the floor personnel other than salespeople may be selected to identify credit buyers at least when the amount of the purchase does not exceed some set relatively small sum. One reason for identification by section managers or others of the higher floor personnel rather than by salespeople in larger stores is that the former are expected to possess more judgment than the latter.

Differences between charge-sends and charge-takes.—If the purchase made by a customer is a charge-send rather than a charge-take this personal identification on the floor will be completed and checked by a further process of identification in the credit office.

In other words, when credit purchases are not immediately taken from the store by the customer but are delivered later, it is possible by consulting the records in the credit sales department to ascertain whether such an account actually exists or whether the person of such a name is actually authorized to buy upon the account she has given in purchasing. Even in the credit office it is not always possible to tell whether the person making the purchase was actually the person who has an account at the store or the person who is authorized to buy on an account.

When the system of personal identification is employed, the credit man, the salesperson, or the section manager is expected to request some special means of identification such as letters, automobile driver's permit, calling cards and the like when he is in doubt.

It should be noted that when customers are allowed to charge and take the merchandise away with them upon mere personal identification, such charge-take purchases must be limited to some rather small stipulated amount. This enables speedy service to be given to the customer and also protects the store against appreciable loss or difficulties from mistakes in identification and from over-buying or exceeding restrictions on an account. The loss or expense incurred by the store should be offset by an increase in consumer goodwill and the reduction in expense which should follow from not having to clear small charge-take purchases through the files of the credit office.

Identification by Coin

The other methods of customer identification—the coin, signature, and Charga-Plate systems—are found primarily in the larger stores.

In the case of these systems, just as in the case of the personal identification plans, only relatively small (although not as small as in the personal identification system) charge-take purchases are released to customers upon mere identification on the floor; their larger purchases must be cleared through the credit files before they can be taken away by the customer.

Also, as in the personal identification system, identification by coin, signature or Charga-Plate can be completed in the credit office before actual delivery in the case of charge-send merchandise. These latter methods, however, go a bit further than the personal identification arrangement in regard to certain points. But they have their disadvantages as well. Let us first describe and evaluate the coin system.

In the coin system of identification a numbered coin, card, or other token (sometimes it is a little aluminum tag attached to a key ring furnished to the new customer by the store) is issued to each charge customer. It is intended that the customer will always have this token with her when shopping, or will send it with the person she has asked to make the purchase for her. The coin can thus act as the sole means of identification on purchases up to a specified amount and the salespeople or others of the floor personnel are relieved of using any judgment in identifying customers in the case of charge-take sales.

Stores using the coin system are to be found mainly in cities on the Atlantic coast. This is probably to be accounted for by the fact that in old cities like Philadelphia, Baltimore, New York and Boston the custom of presenting customers with a token or coin was introduced long ago, and customers are accustomed to carrying these coins in their purses and, inasmuch as their parents and grandparents had them, they rather regard the coin as an emblem of good credit standing. Customers not thus habituated to carrying a token must be educated to regard it as a convenience rather than as a nuisance.

Requirements for efficient coin system.—When the coin system is used, the following provisions for administering it efficiently should be made.

The number on each token should correspond with the number used on the application form and the accounts receivable ledger for the account in question. This facilitates quick reference. A book or file containing the record of every token issued (number; name of customer; address; date issued; date when lost, if lost; date when account was suspended or closed in case such occurred) should be maintained in the credit office.

Furthermore, some means must be employed to keep the floor personnel advised of lost or suspended coins so that identification in the case of charge-take purchases may be as efficient as possible. There are two main methods used for this purpose. The first consists of placing duplicates

of the credit office's complete record of coins at convenient places on the floor. The second method is to place on the floor, or furnish floor personnel with, only a list of the suspended, lost or restricted coins. When a complete coin record in the form of a book or file is supplied to the wrapping desks or to other convenient locations in the store, the numbers of the lost or suspended coins are signalled by check marks made by an employee early in the morning each day. Check marks for coins which have been found or reinstated are, of course, erased.

The other system is to furnish the floor personnel with only a partial list of coins. The numbers of the lost or suspended coins may be entered on cards and these cards placed in files at convenient points on the floor. When a coin is restored, its card is at once withdrawn from this file. Or, instead of such files the credit office may issue early in the morning each day a list of lost or suspended coins to the salespeople or to the section managers. It is to be noted that coins or signatures are not needed in the case of charge-sends except where the merchandise is to be sent to an address different from the charge address.

Advantages of coin system.—In several ways the coin system goes a bit further than the personal identification system in regard to handling charge-take purchases. First of all, presentation of the coin by the customer does indicate at least that such an account actually exists. There should be no buying upon non-existing accounts.

Secondly, whereas the personal identification system as such stops with mere identification, the coin system goes into the next or third step of authorization and, in an elementary way at least, "passes on" the purchase. That is to say, the coin system not only attempts to establish identity, but by referring to the coin record on the floor the salesperson ascertains that the account is not suspended and that the purchase would apparently not exceed any restrictions placed on the account.

Thirdly, the coin system tends to reduce errors since the number can usually be fully recognized on all sales

slips even though the customer's name and address may be hurriedly written. Also when customers who feel that they should be well known come to the credit office on business, the account number can be requested which obviates asking the name and makes the customer feel a more personal relationship with the credit sales department and the store.

Disadvantages.—But the coin system has its disadvantages. The expense of installing the coin system must not be overlooked: cost of coins, entering coin numbers in the records, mailing coins to customers, keeping all coin lists up-to-date, daily corrections, and so forth. There are some who claim that in large stores the expense of installing and maintaining the coin system amounts to more than any possible loss from fraud.

Also, coins may be lost and in some cases found by persons who will secure merchandise upon them before the credit office can be advised of the loss and the floor personnel warned. Lost coins cause less trouble than might be imagined because coins contain only the customer's number, but in order to make a large purchase with the coin the finder must also know the customer's name.* Also, the possessor of a coin may send some one to make a purchase with it who is not one of those mentioned in the credit files as authorized to use the coin and in such cases it is, of course, possible that some customers may take advantage of the situation and try to refuse payment. But as a matter of fact, stores report that they experience practically no difficulty in regard to unauthorized persons using lost coins.

Probably the disadvantage which most frequently shows up is that customers so often come to the store to make charge-take purchases and do not bring their coins with them. In such cases the coin system breaks down and

*Knowing the name is not necessary if the purchase is a charge-take and under the amount authorized for delivery without credit office approval. As a rule, on such charge-takes the floor personnel accepts the coin alone as sufficient authority for delivering the merchandise.

as to give way to the personal identification system which is the very system it plans to supplant.

It is possible, too, that some people who have left behind their coins may become embarrassed because of the necessity of personal identification procedure in a store where they have been buying upon merely showing their coin, or that they may decide to shop in some other store because of fear of being embarrassed if they should desire to make a purchase which would involve taking the merchandise with them.

In this connection it should be stated that the actual showing of the coin is not required to as great an extent as customers suppose, and if the number of the coin is known the charge-take is often authorized with little or no delay to the customer. All in all, apparently the coin system is, at least in the case of the larger stores, more advantageous than the mere personal identification system.

Identification by Signature

To obviate the defects of the coin system due to customers losing or forgetting to bring their coins, some large stores have adopted the system of identification by signature. It is also used by small establishments in some lines, for example, filling stations. The customer's signature is obtained before the account is opened, and filed so that it may be readily referred to by the authorizers.

When a charge-take sale is made, the customer is required to sign the salescheck. Usually the section manager or some other member of the floor personnel must also sign the check to show that he recognizes the client's signature or that satisfactory identification was made.

Disadvantages.—Now, if the charge-take sale is a small one which does not exceed a specific limited sum set by the store, the merchandise is released upon completing the formality of affixing the signatures. Since it is not usual for each section manager to have a complete file of customers' signatures, due to the expense and time for refer-

ence which would be involved, and since he cannot remember all the signatures, the system cannot be a perfect identification scheme.

Therefore, the section manager in O.K.'ing many sales-checks either mechanically verifies a signature which he really doesn't recognize but which is affixed to the check by a person who "looks all right," or he has to ask the customer to produce satisfactory means of identification. Thus, in the case of charge-take purchases the signature system, like the coin system, often breaks down and gives way to the system of personal identification.

The signature plan is not so successful in obviating the defects of the coin system as one might imagine at first glance. It is true that people sometimes lose or forget to bring their coins but always bring their signatures with them. But the person whose signature is not known to a section manager is in the same situation as the customer who forgets or loses his coin. In either case he gets the small charge-take purchase because he looks all right and the section manager "takes a chance," or he is required to go through the process of personal identification.

In discussing the coin system it was pointed out that even when coins are presented by customers it is possible to make mistakes in identification. The same is true of the signature system. There may be no account carried in the name signed by the customer; there may be such an account but the signature may be forged, or the signature may not be that of an authorized buyer on the account although it is purported to be such.

Advantages.—It must not be thought that we are arguing against the coin and signature systems here. We are merely pointing out that they do not constitute, as might be imagined by the uninitiated, a perfect means of identification and that they do not completely do away with personal identification.

Nevertheless, in big stores either of these two systems tends to give more speed and certainty in identification *in the case of the great majority of the accounts* than could

be achieved if a mere personal identification system were used for all charge purchases. In some cases a combination of the coin and signature system is used, the customer being required to sign for large charge-takes.

To continue with our discussion of the signature system, in the case of larger charge-take purchases (and also charge-send transactions) the customer's signature on the salescheck can be checked against her signature on file in the credit office. In cases where identification is made or completed in this way at the credit office, it tends to be more certain under the signature system for actual signatures may be compared rather than coin numbers, account numbers, names, and addresses as in the case of the coin and personal identification plans.

The signature system is felt by many to have a distinct advantage in controlling and collecting the accounts receivable since each charge sale is signed for by the customer before it leaves possession of the store. A signed salescheck or duplicate makes it easy for a customer to recall making a purchase she had forgotten that she made.

The Charga-Plate System

A recent development in customer identification systems is the Charga-Plate. This is an attractive metal plate, not quite as large as the usual gentleman's calling card, made of a special non-tarnishing alloy which is silver in appearance. One side is embossed with the customer's name, street address, city and state, and account number and zone delivery number, if used. The reverse side has a lipped over edge into which is inserted an identification card printed with the store name and address and bearing a space for the customer's signature. Each Charga-Plate is supplied with a stitched edge carrying case of imitation leather.

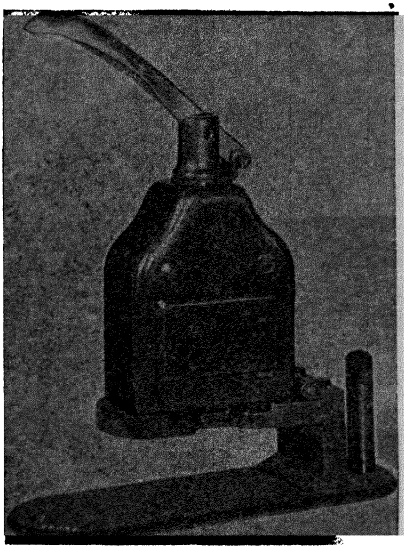
The Charga-Plate not only identifies the customer but is also used for printing the customer's name and address on the salescheck. It is placed in a small addresser which

is located on the counter. Then the salescheck which has already been itemized is slipped in proper position over the embossed plate, and the original, the tissue and the carbon copy of the salescheck are all imprinted at the same time by depressing the handle of the addresser. The plate remains always clean since it never comes in contact with the ribbon.

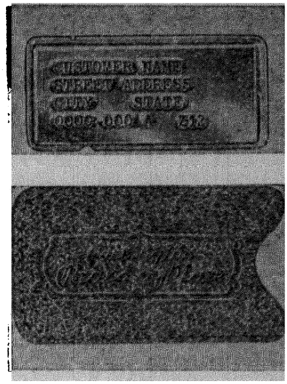
Advantages.—Because it imprints the salescheck, the Charga-Plate possesses advantages over other systems of customer identification. It makes possible faster salescheck writing and consequent speeding of customer traffic. It saves embarrassment to the salespeople in handling difficult names. The elimination of errors due to illegibility or mistakes in hand-written saleschecks facilitates authorization, sorting and posting, billing, and delivery.

Authorization expense may be reduced through permitting larger charge-takes to be released on the floor than under any of the other systems, and losses due to fraud are said to be greatly reduced. One of the problems encountered in coin or card identification systems is getting the customers to carry the tokens furnished, but the average carriage in the more than 300 stores using the Charga-Plate method in 1947 was reported to be over 70 per cent on both charge-takes and charge-sends.

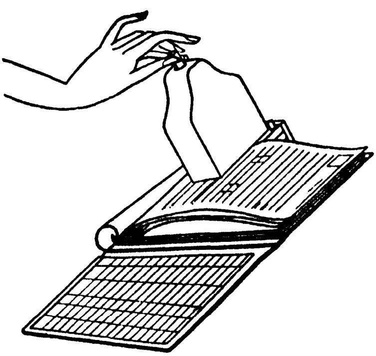
The customer appears to like having a token with her name embossed on it and to see her name printed on the salescheck, and so the Charga-Plate system has been used to good effect in credit sales promotion, to increase customer good will, and to recreate the interest of inactive accounts. Also, it is said that the system saves the customer time in making purchases, assures her of prompt delivery of merchandise, eliminates the necessity of announcing her name and address in public and the frequent annoyance of having to spell the name and address, saves time in paying bills and cashing checks, and is a means of identification anywhere. Personal plates are furnished for each member of a family.



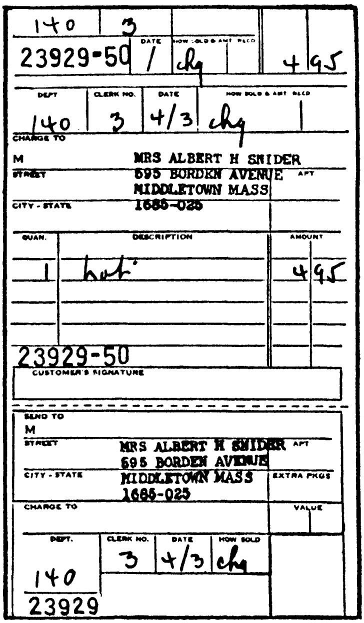
THE CHARGA-PLATE ADDRESSER



CHARGA-PLATE AND CARRYING CASE



IMPRINTING NAME AND ADDRESS ON SALES SLIP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CHARGE TO
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IMPRINTED SALES SLIP

FIG. 4. CHARGA-PLATE METHOD. (CUTS COURTESY FARRINGTON MFG. CO.)

There is some chance of loss to the store in the case of releasing charge-take purchases upon mere floor identification no matter what system (personal, coin, signature or Charga-Plate) is used, but as a matter of fact such losses tend to be insignificant and to be out-weighed by the increased speed in serving charge customers and the elimination of the expense of passing on a multitude of small purchases.

Making out the salescheck and floor identification constitute only part of the authorization function which we shall analyze further in Chapter VIII.

QUESTIONS

1. What are the four principal steps in performing the function of Securing New Business? Why are controlling the account and collecting said to be based upon the foundations laid in these four steps?
2. Which classes of the problems in controlling the account require preventive or protective measures? Which require promotive arrangements?
3. What are the functions of the authorization system and why must they be performed?
4. "A successful authorization system will be characterized by five main essentials." What are these? Are they necessary in small as well as large stores?
5. To insure saleschecks being made out accurately, what are the rules or requirements you would set up?
6. What are the chief kinds of mistakes possible in identification of charge-take purchases?
7. In what cases is personal identification satisfactory?
8. What are the advantages and disadvantages of using coins for identification?
9. Give the arguments for and against the signature system.
10. "Because it imprints the salescheck, the Charga-Plate possesses advantages over other systems of customer identification." Are there other advantages? Disadvantages?

CHAPTER VIII

AUTHORIZING PURCHASES

(Communication Systems; Passing on Charge Purchases)

Thus far we have discussed the first two of the three main steps in authorization: making out the salescheck, identifying the customer, and passing on the charge.

Authorization and Pre-authorization

In describing the process of identification it may have appeared that often there are only two steps to authorization procedure. For we have seen that in the case of small charge-take sales all that happens is the filling out of the salescheck and the identification of the customer, and then the purchase is released immediately to the buyer.

Nevertheless, the third step of passing on the charge purchase is not missing here—it has been done in advance; the credit office has pre-authorized all charge-takes (in the sense of passing on them in advance) up to a stated small amount upon identification by salespersons and up to a specified larger amount upon O. K. of the section manager or certain others of the floor personnel. Also when the salesperson or section manager is identifying the small charge-take buyer, he often goes further than mere identification and engages in an elementary form of passing on the purchase by consulting a file or list to see whether the account is restricted or suspended.

Main types of pre-authorization.—As indicated above, pre-authorization of a customer's purchases *up to certain specified amounts* may be secured by allowing salespeople to hand over charge-take purchases without the salescheck being O.K.'d by the regular authorizers in case the customer's identification is not questionable or in case she

presents a Charga-Plate or some other token.* Pre-authorization of the customer's purchases *up to the total limit* she has established may be secured by the so-called budget plans using coupon books, thrift checks,† letters of credit, the Charga-Plate budget plate, or other tickets which, like meal tickets, have amounts to be punched out by the salesclerk, and so on. (Tickets which are to be punched by the salesperson also may be used for limited monthly charge accounts.) Also, a book of stamps may be issued to the budget customer which are given by the customer to the salesperson who affixes a stamp to each salescheck.

It is possible to pre-authorize at one time a total of from ten dollars to several hundreds of dollars when a coupon book or other such device is used, thus eliminating the need for authorizing every purchase made by the customer in using up this credit. But the customer still has to be billed for the payments which she has agreed to make on her budget plan contract.

Limitations of pre-authorization.—No pre-authorization plan takes care of all of a store's customers—there are always many who do not use coupon books or other budget plan devices, who do not carry their coins or other identification media, or who wish to make a charge-take purchase larger than the amounts which have been pre-authorized.

But it is especially the large charge-take or the charge-send purchase which demands a third definite step in authorization, requiring passing on the charge in the credit office to protect against customers exceeding restrictions or overbuying.

*The tendency toward looser authorization (i.e. pre-authorizing larger amounts) in regular charge business would seem to be another argument for the policy of having a clear understanding with the customer upon his credit limit at the time of opening the account, and for suspending the account when it becomes delinquent.

†Thrift checks, or script, are similar to a coupon book in loose leaf form, and take care of about ten per cent of the store volume in a Boston department store. They are used for budget customers and for restricted charge customers. The chief advantages over the coupon book are that odd amounts can be issued and that the script can be used over and over which affords a saving of expense. Saleschecks are not billed and there are not so many adjustments—the returns are about the same as on cash sales.

Now, before discussing this final main phase of authorization procedure, it is logical to first consider the systems of communication between sales floor and authorization stations. Such systems must be speedy as well as accurate, especially since the customer who has made a large purchase which she wishes to take with her must wait until the salesperson has communicated with the credit office and received its approval before he can release the merchandise to her.

Communication Systems

Information regarding a charge purchase may be carried from the sales floor to the credit office for its checking by any one of eight principal media.

Personal System

First of all, there is what may be called, for lack of a better name, the personal system. That is to say, the salesperson or some other employee carries the salescheck to the credit office to be passed on.

This plan is used in all small stores, but cannot be employed to handle the business of larger establishments. In the latter houses the expense of some mechanical communication system is both necessitated and justified by the volume of business and the extent of the floor space.

Basket and Cash Cup Carriers

To meet this need, there was introduced the system of basket carriers running on overhead steel wires from various convenient points in the store to a combined cashier's cage and authorization station. The salescheck was dispatched in this basket by the salesperson, and often the merchandise itself was included to be wrapped in the authorization station and returned with the approved check.

Also, use was made of variations of this system. For example, instead of large wire baskets, small metal cash cups were employed in one arrangement, while in an earlier

system hollow wooden balls, similar to croquet balls, were used as the carrier for cash and saleschecks.

This method of communication between sales floor and credit office was advantageous in the case of larger stores as compared with the personal system. But the difficulties experienced in trying to use it in stores having large floor space or several sales rooms or floors, as well as its slowness, stood in the way of its success.

Cable Carrier

A third system was developed to remedy these disadvantages. It may be termed simply the cable carrier method. In place of wire baskets or cash cups, small metal boxes or carriers were dispatched from various stations to be carried on a constantly running cord or cable to the authorization station. This cord running over a system of pulleys supported by metal uprights made possible an arrangement flexible enough to allow all floors or sales rooms of a large store to be served from one central authorizing station.

The system overcame the difficulties associated with the older methods discussed above and was much speedier. But it was to be superseded by still swifter means of communication in the case of large stores. At the outbreak of World War II, there were still about 4,000 users of each of the systems just mentioned (basket, cup, and cable), but manufacture of these has been discontinued in favor of the more modern methods discussed below.

Pneumatic Tube

The fourth system, which is much used in the larger retail establishments today, is the pneumatic tube. Metal tubes lead from the tube room, which usually contains cashiers as well as credit authorizers, to various stations throughout the store. Small cylinders or carriers are sent through the tubes by suction. Different cylinders may be used for cash, for charge-take, and for charge-send transactions.

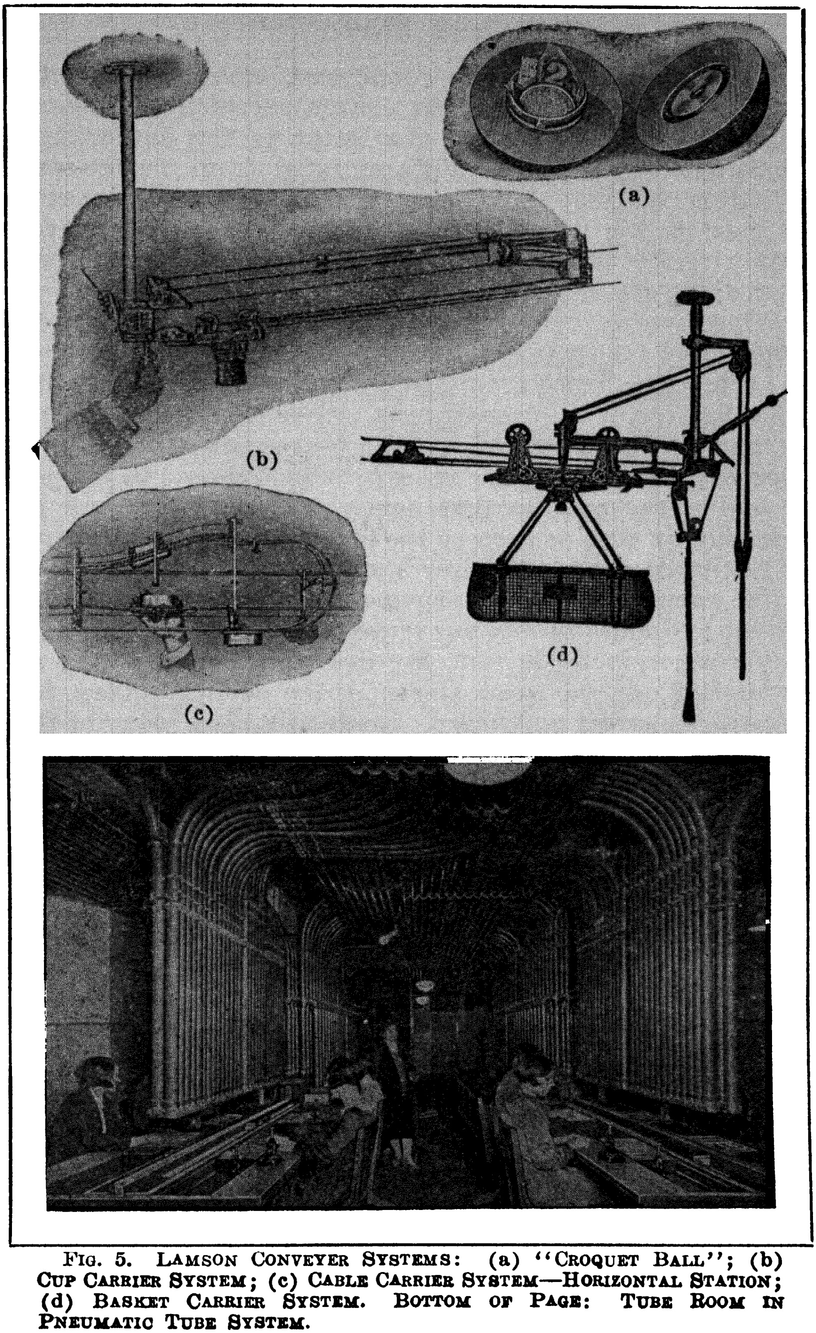


FIG. 5. LAMSON CONVEYER SYSTEMS: (a) "CROQUET BALL"; (b) CUP CARRIER SYSTEM; (c) CABLE CARRIER SYSTEM—HORIZONTAL STATION; (d) BASKET CARRIER SYSTEM. BOTTOM OF PAGE: TUBE ROOM IN PNEUMATIC TUBE SYSTEM.

Upon reaching the tube room, cash carriers are automatically separated from the charge carriers, the former going to the cashiers and the latter to the authorizers. Charge-take are usually differentiated from charge-send cylinders by some color scheme, or an automatic device may be used to separate them. This makes it possible for authorizers to pick out the charge-takes and give them the immediate attention they require.

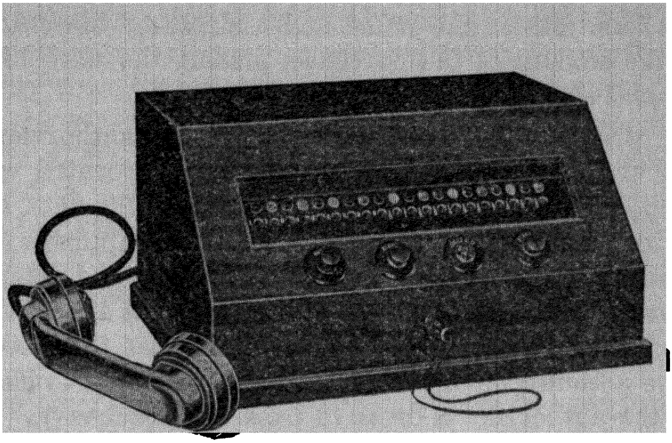
When the store is large, a number of authorizers may be employed, each having a certain list of names to supervise. In such cases the charge carriers may be received from the tubes by an employee who opens the carriers and correctly distributes the saleschecks therein to the authorizers, thereby saving their time. The sales personnel should be trained to fold saleschecks so that names and addresses will be immediately seen as soon as the carriers are opened, thereby facilitating the authorizer's work.

The pneumatic tube arrangement has proved to be more flexible and more speedy for large establishments than any of the other methods thus far described, and is used in more than one thousand stores in the country today for authorizing credit purchases. In about half as many of the larger stores at present another very speedy method of communication is being employed.

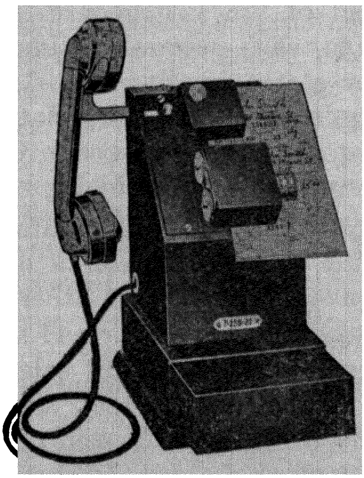
Charge Phone

This fifth method is a special telephone system which in 1947 was used in over six hundred stores. A telephone switchboard for the authorizers is installed in the credit office and telephones of a special type ("charge phones" having a device for stamping or perforating saleschecks) connected with this board are located at wrapping desks or at other convenient places in each selling department. Unlike all the other systems discussed, the salescheck is not sent to the authorization station. Instead, the information on the check is sent.

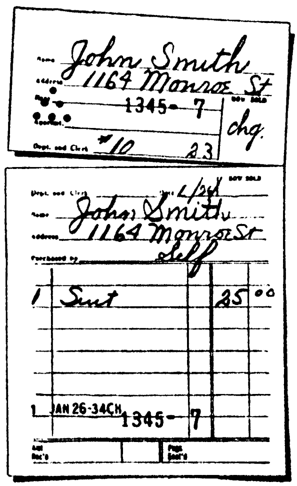
The salesperson or inspector signals the operator (in some large installations it is possible to directly signal the particular authorizer who has charge of that section of the



N. C. R. AUTHORIZER'S SWITCHBOARD



SALES PERSON'S CHARGE PHONE



AUTHORIZED SALES SLIP

FIG. 6. N. C. R. O.K. CHARGE PHONE AUTHORIZING SYSTEM. CUTS COURTESY NATIONAL CASH REGISTER CO.

list of charge accounts in which the customer's name belongs) and states the name and address of the customer and the amount of the purchase, placing the salescheck in a special slot in the telephone.

By pressing a button the operator or authorizer can cause the salescheck to be stamped or perforated with a legend indicating the telephone number and the date, thereby authorizing the purchase. If she cannot approve it, she advises the salesperson or inspector over the telephone so that the customer may be informed that there will be a slight delay (in case more information has to be secured on the account) or directed to call at the credit office (in case the authorizer refuses to pass the purchase).

The switchboard illustrated on page 157 is used in small and medium-size stores, which require from 10 to 20 charge phones and only one authorizer. For smaller stores requiring from one to ten charge phones an authorizer's master phone is used instead of the switchboard, while switchboards of the desk type, each accommodating two authorizers, are provided for stores needing 20 or more charge phones. A system quite similar to the National O. K. Charge Phone, illustrated, is the Dictograph O. K. Charge System (not manufactured since World War II).

In using the special telephone system to convey information from the sales floor to the credit office, clerks should be careful to guard their conversation so that other customers may not hear the name of the purchaser and try to buy on her account. Furthermore, if the credit sales department requests over the telephone that the customer be sent to the office, he or she should be informed quietly or personally conducted to the office.

Either the pneumatic tube or the telephone system is used in most large stores. Speed is essential in releasing charge-take transactions. Small purchases of this type, as we have seen, may be released immediately without communication with the credit office. The others, in general,

can be handled faster by the telephone than by any other system, but in using it much care must be taken to train salespeople or inspectors to give information exactly over the wire since the salescheck is not sent to the authorizers.

On the other hand, in the pneumatic tube system, which is next to the telephone in speed, the salescheck itself is handled by the authorizers who thus have a chance to immediately detect or prevent errors which may arise in communication by telephone. Some large stores use both the pneumatic tube and the special telephone systems.

TelAutograph and Teletype

Two other electrical systems which may be used for communication in authorizing are the TelAutograph and the Teletype. These may be particularly advantageous in the case of a store having branches, the information on the salescheck being sent from machines in the branches to the credit office of the store for authorization.

The branches of a department store in Baltimore (Hecht Bros.), one in Milwaukee (Schuster's), and another in Los Angeles (The May Co.), and a Cleveland furniture store (Kurz Furniture Co.) are connected by TelAutograph with their main store credit offices. Many major department stores handle credit releases and draw back merchandise awaiting shipment by TelAutograph. Stores also use TelAutograph between the first floor cashier and credit department.

Merchandise System

The eighth and last system of communication between sales floor and authorizers employs the merchandise itself as the means. Any one of the methods we have already described may be used in the authorization of either charge-take or charge-send transactions—or both. But this last system of using the merchandise itself to carry the salescheck to the authorization station for checking by authorizers is, of course, used only in the case of charge-send purchases.

This system, the pneumatic tube and the telephone systems constitute the three main methods used by the larger stores today in handling authorization. Let us examine the problem of authorizing charge-send transactions under these principal methods. The nature of handling charge-take purchases in retail trade has already been sufficiently indicated in the preceding pages.

Handling Charge-Sends

When the volume of charge business is large or when there are peak periods of extra heavy business, the communication system may become overtaxed or run into difficulties.

First of all, merchandise may accumulate waiting for authorization. Small charge-take purchases are wrapped and given to the customer immediately. But larger charge-takes are held, usually unwrapped, until authorization has been received through the pneumatic tube or over the telephone.

Now, if in addition the charge-send transactions are held by the sales people or at the wrapping desks until authorization is received, packages will often tend to pile up due to overtaxing of the tube, telephone or other system of communication. Service on charge-take sales, both small and large, will be slowed down.

There is another difficulty, too. When the salescheck is finally authorized it must be matched and wrapped with the correct merchandise to be sent.

Drawback system.—One plan to prevent congestion of charge merchandise is the so-called "drawback" system which is of relatively recent adoption by large stores. No change is made in the means of communication,* but charge-send purchases are immediately wrapped and dispatched to the delivery department. At some time before the packages are taken by the deliverymen the salescheck

*This is why we do not refer to the "drawback" as a ninth system, since our classification here is of different systems or methods of *communication*, not of authorizing.

is passed on by the credit office. If it is found that for any reason a purchase cannot be authorized, either the delivery department or the truck drivers receive a "hold" notice and the goods are withdrawn or "drawn back."

The drawback system preserves centralization in authorizing, prevents congestion of packages at counters or wrapping desks, and tends to speed up the store's service to its charge customers.

There is some risk attached to this method for salespeople may send packages to the delivery department and fail, either intentionally or unintentionally, to preserve the salescheck and have it authorized. Various devices are employed to prevent such fraud (having all wrapping of merchandise done by inspectors, checking-up on missing saleschecks, and so on) but none appears to be absolutely perfect. However, the drawback system has come to be used by many large stores which feel that its advantages far outweigh its risks. The drawback plan, as we have seen, is merely an arrangement to use in connection with the tube, telephone or any of the other communication systems we have described.

Merchandise system vs. drawback system.—But many large stores have introduced what we have referred to as the eighth system of communication, that is letting the merchandise itself carry the salescheck to the authorizers. All charge-send transactions are immediately wrapped and carried, conveyed or chuted to the delivery department.

Each package arrives at the authorization desk in the delivery department carrying its address card and its own salescheck which is detached and investigated. Errors due to having saleschecks authorized and then failing to match them with the correct packages or with all the packages they refer to are prevented. In the delivery department, cash or C. O. D. packages are separated from charge bundles, the latter going to the authorization desk.

Now, this system of communication not only tends to prevent piling up and congestion of charge packages at counters or delivery desks, but, unlike the drawback plan, takes

the burden of handling charge-send transactions off the tube, telephone or other system used by the store, which may thus be employed only for charge-take authorization, resulting in speedier service to charge customers.

Of course, the system of using charge-send packages to carry their own saleschecks to the authorizers has its disadvantages. It may not be found practicable for all kinds of merchandise, and it necessitates decentralization in authorization. An authorization department with authorizers and a duplicate set of indexes of charge accounts must be set up in the delivery department. But the merits of the system for many large stores generally exceed greatly its disadvantages. As previously stated, this system, the pneumatic tube, and the telephone system are the three leading systems in use today in the larger retail stores.

Passing on Charge Purchases

Having discussed the various systems of communication between sales floor and authorization stations, we may now consider the final step in the authorization process: passing on the charge purchases. In treating this step, observations are in order regarding the functions performed by the authorizers, the equipment, and the qualifications of the personnel.

Functions of the Authorizers

At the outset, it should be noted that the job of authorizing performed by these authorizers really comprehends two functions.

Their first function is to identify, or to check or complete the identification of the customer. Customer identification in the case of small charge-take sales is handled, as we have seen, by some system which does not call upon the personnel of the credit office or authorization stations. But it is otherwise with other charge sales. They are cleared through these authorizers. Sometimes the latter need only to check and complete the identification made on the floor.

In other cases, customers who cannot be identified on the floor are referred to the credit office.

The second function is to pass on the charge in the sense of checking the files to see that the purchase will not exceed any restrictions on the account or constitute overbuying. For the purpose of discharging these functions efficiently, good equipment, systematic procedure and qualified personnel are necessary. Let us look first at the equipment.

Equipment Used in Authorizing

In the small store the authorizer, who may be the credit man himself, or the proprietor, will usually refer to the accounts receivable ledger whenever it is necessary to complete the identification and check the purchase of a charge customer.

In larger stores a special authorization index is often provided for authorization work, the authorizer referring to this index instead of the accounts receivable ledger. When the volume is so large as to require a number of authorizers, each authorizer may be in charge of a certain portion of the index. This helps her to familiarize herself with a particular list of names.

Data for authorizing.—The authorization index contains a record of every charge account on the store's books. Usually each account is entered upon a separate card in a visible file. For each account the following data may be given: full name, all addresses (residence, business, and former), credit limit or rating, restrictions (if any), all extra instructions, buying privileges, number of the folder or information file containing all detailed data possessed in regard to the account, the coin number or signature of the customer.

The customer's *full* name should appear on the card covering each account in order to prevent confusion which might easily occur if only last names and initials were given. The full name must be given also in the sense that it must indicate whether the account is in the name of the customer or wife or in the names of both.

The credit limit or rating is a mark set for the authorizer so that she may be guided in passing on purchases and refer sales which exceed the limit or rating to the attention of the "refer authorizer" or manager of credit sales. Accounts carrying restrictions are those on which purchases must be referred just as in the foregoing case. Restrictions shown by an authorization card may be such as the following: "Refer pending settlement" or "Refer pending interview" or "Over the limit," and so on.

In order that authorization cards may be notated promptly to show any restrictions necessary, bookkeepers may report every day on appropriate sheets or cards such information as the name, address, folio number, amount owing to date, and date of last payment in the case of all accounts where customers are overbuying or in other ways exceeding restrictions. These lists or cards from the bookkeepers may be checked against the indexes of the authorizers so that every card in the index will properly show any restrictions. The same report should also list the accounts from which restrictions have been removed.

Types of indexes.—In some large stores, authorizers are provided not only with an index where each account appears in alphabetical order (the last name being given first, of course) but also with a geographical index. In the case of the latter type of index, the accounts are classified by streets instead of by names. Such an index often proves valuable in case salesclerks omit the customer's name or misspell it, for by referring to this index it is often possible to discover the correct name of the client. Another type of authorization index may be employed where accounts are listed in logical order according to coin number. Indexes to be used by authorizers should, of course, be visible indexes so that accounts may be referred to with the greatest possible ease.

The authorization file is the main instrument used by the authorizers in their work of checking or completing identification of the charge buyer and in passing on the purchase.

A very popular arrangement is the use of a visible credit history card file (the card for each customer contains the application form and a skeleton record of balances and payments, as well as a collection follow-up record) for authorizing and collecting instead of having a separate authorization file. And, as previously indicated, many large as well as small stores use the ledgers themselves as their authorization files.

Procedure of Authorizers

In the case of many purchases in small stores, the authorizer may be so familiar with the account that it can be passed without any reference to the files or to the accounts receivable ledger. In other cases it may be necessary to look up the account in the ledger or to refer to the credit information on the customer or even to have a personal visit with him.

In larger stores there may be several sets of authorizers working with their indexes, some in the main authorization room and some in the authorization section of the delivery department. Also there will be one or more refer authorizers. In most cases an authorizer upon receiving the salescheck, or the information over the telephone, can perform her functions and pass the charge purchase by merely referring to the appropriate card in her index. However, often she finds that an account is closed or for some reason she cannot authorize the purchase, and in such cases the matter is referred to the refer authorizer.

Refer authorizing.—These refer authorizers may look up the account in the master file in order to ascertain whether the account has been closed for slowness or for other reasons. Or, if it is not a case of a closed account, the refer authorizer may refer to the accounts receivable ledger in order to discover the exact condition of the account.

If, after thus checking up the account the refer authorizer is doubtful about passing the charge purchase, she will refer the matter to the manager of credit sales or one of his assistants for decision. The decision may be to re-

fuse to pass the credit until the balance of the account is reduced or it may be to raise the credit limit previously placed upon the account. Often it is necessary for the manager of credit sales, or the assistant credit man who is charged with this work, to telephone the customer or have her visit the credit office for a talk in regard to the condition of the account.

Refers and credit limits.—The regular type of authorization index (as contrasted with the credit history card type) does not contain figures showing the exact balance owed by the customer although it does indicate her limit. How large a purchase should be passed by an authorizer? Even if the purchase is much smaller than the limit set for the account it may, when added to whatever balance is owing, send the account far over the limit.

One way used in guiding the authorizer is to allow her to pass as many purchases as she wishes as long as none of these purchases amount to more than one-tenth of the limit set for the customer. That is to say, if a customer in good standing has a credit limit of $100, any number of purchases for $10 or less that she makes during the day will be automatically passed by the authorizer. However, should she make any one purchase for an amount exceeding $10, that transaction would be referred to the refer authorizers or to the manager of credit sales or his assistants. This system seems to work quite well, and results in only a small proportion of purchases not being automatically authorized. It relieves the authorizers of the responsibility of trying to remember what each customer has bought in passing on each purchase.

It has been noted in an earlier chapter that the credit limit set for a customer is not rigid. When a customer exceeds her limit, the purchase may be approved by the manager or other credit sales department officials if the customer's habits of paying have been satisfactory. The limit may not be changed or raised but the customer may be allowed to exceed it by as much as fifty per cent. Of

course, if the customer's pay habits have not been satisfactory the account will be restricted.

Refers and unauthorized buying.—It often happens that unauthorized persons attempt to buy upon an existing account. Thus children, relatives, friends or servants of a customer may attempt to make a purchase on her account. When the buyers wish to take such purchases with them, care must be exercised by the authorizer to make sure that the buyer has been empowered to make purchases on the account in question. Unless this is true, the matter must be referred to the manager of credit sales or one of his assistants. He can telephone the customer in whose name the account stands and have her confirm the transaction before the merchandise is released. If the customer cannot be reached by telephone, he will call the person who is attempting to buy into the office for an interview.

In cases where a customer endeavors to make a charge purchase and take the goods with her although the account is restricted, has exceeded its limit, or has been closed, the salesperson is directed to request the customer to step into the credit office to discuss the account. This request should be made in such a way as not to cause any resentment upon the part of the customer. In cases where it appears that fraudulent buying is strongly indicated, the house detective may go to the salesperson and ascertain whether the customer will identify herself or whether she will carry out the request to call at the credit office. Care must be observed, of course, in taking any positive measure in regard to a customer unless it is clear beyond the shadow of a doubt that fraud is being attempted. Otherwise the store may lay itself open to an expensive law suit.

Authorization Personnel

In larger stores, as mentioned before, separate persons will perform the duties of authorizing, the task of refer authorizing, and the functions of finally deciding upon doubtful cases.

In selecting and training personnel to discharge these different functions it is important to note that the possession of good judgment as a necessary qualification increases from step to step. That is to say, in a well organized authorization system the ability to exercise sound judgment is of greatest importance in the personnel intrusted with the duty of giving final decisions upon doubtful cases (the job of the manager of credit sales or one of his assistants), less for the refer authorizers, and least of all for the authorizers.

The authorizers need especially to possess qualifications of speed and accuracy in checking saleschecks against the information in their indexes. Usually the authorizers are girls for, in general, they are faster and better at detail work than men. Refer authorizers must possess the ability to make sound judgments in a larger degree than the authorizers, and while speed and accuracy are, of course, important, refer authorizers must possess a certain amount of initiative and imagination. Good judgment is supremely important, naturally, in the case of the manager of credit sales or the assistant who is called upon to decide doubtful cases.

Authorization Routine

In this chapter we have seen how the everyday routine problems, which arise in connection with every account each time a purchase is made upon it, are controlled by the system of authorization. The discussion has been concerned with charge accounts, in which the problems of authorization are generally much more complex than in installment selling, but the same fundamental principles apply to all types of retail credit business.

The system moves logically through the following steps. First, there is the making out of accurate saleschecks and the identification or attempted identification of the customer on the sales floor. Then, there is the communication of the salescheck or the information upon it to the authorizers. Finally, the authorizers check or complete the identification and pass upon the purchase. As a result of this

authorization procedure the store protects itself against unsound releasing of merchandise on credit accounts and solves the routine problems of control.

But there are special problems which arise now and then in connection with particular purchases. These special problems in controlling the account are treated in the next chapter.

QUESTIONS

1. Explain the essential differences between authorization and pre-authorization.

2. What communication systems for authorizing are suitable for large retail establishments? For small stores?

3. Compare the advantages and disadvantages of the pneumatic tube and the charge phone systems.

4. For handling charge-sends in a large department store, which do you prefer: the drawback system or the merchandise system? Give your reasons.

5. Explain the functions of the authorizer. The refer authorizer. What qualifications should each possess?

6. What different types of authorizing indexes may be used in a large store? Give the advantages of each.

7. What would you recommend as the authorization index for a small store?

8. Give examples of cases which you feel should be referred by the authorizer.

9. Is the function of authorizing necessary in installment selling? In budget plan selling? What are the main differences as compared with authorization of charge sales?

10. What are the main steps in authorizing credit purchases?

CHAPTER IX

SPECIAL PROBLEMS OF CREDIT CONTROL

After accounts have been opened and placed upon the books of a firm, a great variety of problems arise in controlling their use. As we have seen, these problems may be grouped into three main classes: routine problems, special problems and problems of promoting full use of accounts. The routine problems (correct identification, prevention of overbuying or exceeding restrictions, and prompt and accurate service) arise every time a purchase is made on any account. These problems and the system of authorization set up to meet them were discussed in the preceding chapters. The special problems of credit control, to be treated in this chapter, do not arise with every purchase on every account but emerge from time to time in connection with some of the accounts. What are they?

Types of Special Problems of Credit Control

Perhaps the main types of these special problems in credit control are the following: returned goods, claims, complaints and adjustments, discounts and allowances, cashing checks, and keeping up-to-date on derogatory information.

Such problems as these are constantly arising in reference to some of the accounts. Unless a definite policy is formulated and a system or arrangement of some kind to enforce it is set up, the store will be subject to certain and unreasonable loss. Preventive policies and measures are required to protect the firm here just as in the case of the routine problems previously discussed. In the following pages of this chapter we shall consider each of the special problems of credit control in turn, examining its nature and discussing policies or systems employed to meet it.

Returned Goods

One of the important problems encountered in controlling the account is that of regulating the privilege of returning goods, for returns generally run much higher on credit than on cash purchases.

Advantages of the Return Privilege

In modern retailing the practice has become quite general to sell merchandise to credit customers on approval, giving the purchasers the privilege of returning the goods and canceling the charge if they wish. This practice is, of course, born of the desire to increase business.

When shopping, a customer might be hesitant about purchasing some article if she could not return it should she later wish to do so. This may be due to any one of a number of reasons. Perhaps she cannot, or does not wish to, make an immediate final decision on a certain article. She may be unable to choose between several styles or kinds, and wish more time in which to compare them or to get the reaction of friends or members of the family.

There is the possibility that if several styles or kinds of the article are sent on approval, the customer will finish by retaining one or more. Or, she may like two or more items, say fur coats, and wish to try them all in her home with the hope of inducing her husband to let her get the higher priced article. She may wish to see if the item, or which ones of certain articles, will "go" with her other things—for example, to see if a piece of furniture will fit in with the other pieces in her home. And, of course, she will want to be able to return any article which proves defective. It is obvious that the return privilege may be a service of real value to the customer and may also result in increasing sales.

Disadvantages of the Return Privilege

But, unless controlled, it may turn into a first rate evil. Customers may order goods on approval with no intention of purchasing them.

Wearing apparel, for example, may be secured on approval, actually worn to some function, and then returned. Radios may be ordered for a party or for the broadcast of election returns, a football game or a prize fight, and then returned the next day. Rugs and furniture have been secured on approval and then sent back to the store after the party. Some customers seem to love to "play at shopping" and, just to get the thrill from selecting and buying things, are continually charging goods which they do not intend to retain but to promptly or finally return.

Returned goods mean increased expenses for the store. Generally, the merchandise has to be called for at the customer's home, brought back to the store, unwrapped, put back in stock, perhaps remarked, resold, wrapped, and delivered again. Additional bookkeeping is necessitated. The whole job of selling and delivering the article has to be done over again.

Also, the returned merchandise may have become somewhat soiled or may have suffered in some other way, thus necessitating a mark-down. Furthermore, in order not to miss any possible sales, stores which are liberal in sending goods on approval must maintain proportionately larger stocks of merchandise on hand. This is an expense.

But a policy of doing away with the privilege of returned goods cannot be adopted for the privilege is too valuable to both store and customer. Instead, the store should aim at control of the problem so as to secure the most sales and service with the least expense. In formulating such a policy, it is necessary to discover first of all the main reasons for returning goods.

Reasons for Returning Goods

Most of the instances of returned goods are due to the store itself and the rest are due to the customers. The proportion of returns due to either can be reduced considerably without hampering sales or service.

Let us consider first how the store itself may contribute to excessive returns. 1. Some returns, perhaps as much as

a fifth or a quarter, may be due to errors of the store personnel. The customer may be given the wrong package, size, color, type, brand, and so on. 2. The merchandise may not be as represented, may be defective, or may be damaged in delivery. 3. The sales department may be over-liberal in sending out goods on approval. It is obvious that returns due to any of the above causes may be reduced without adversely affecting sales.

Returns for which customers are primarily responsible may be divided into three main classes.

The first class may be called the ordinary and unavoidable returns. The customer may find that the article does not go well with her other things. She may change her mind or find what she considers a better buy either at the same store or elsewhere. If she has been sent several articles from which to make a choice, some will naturally be returned. Thus, there is bound to be a certain proportion of merchandise returned for which no one can be held to blame. Such returns represent a valuable service of the store to the customer and should be justified by increased goodwill and sales volume.

The second main reason is negligence on the part of the customer. She selects the wrong brand, size, color, or article. She may be negligent also in the sense that she does not realize the expense of returns to the store and therefore does not buy as carefully as she might. Such returns, as well as those due to the following type of customer, may be reduced by education.

Thirdly, some returns are due to intentional abuse of the privilege by a certain class of customers who secure goods on approval with no intention of keeping and paying for them.

A study of 4,357 returns* made by Esther F. Podester, *New York Journal-American,* and Paul E. Murphy, Frederick Loeser & Co., Inc., Brooklyn, classifying the returns

*_Retailing_ magazine, March 21, 1938, Section One, p. 9.

by reasons and by departments shows that the fault for returned goods lies mainly with the retailer, and that most of the returns in the department store studied were in the home furnishings and ready-to-wear departments.

TABLE I

WHY CUSTOMERS MAKE RETURNS

Rank	Reason for Returns	Number of Returns	Per Cent of Total
1	Defects in merchandise	1,049	24.1
2	Unsatisfactory fit	865	19.9
3	Sent "on approval"	637	14.5
4	Wrong items sent—item damaged in delivery	633	14.5
5	Dissatisfaction arising from mail or phone orders	291	6.7
6	Dissatisfaction with merchandise sent on promise order because item was "out of stock"	286	6.6
7	Delivery despite cancellation	199	4.6
8	Found for less elsewhere	183	4.2
9	Miscellaneous	135	3.1
10	Unclassified	79	1.8
		4,357	100.0

Establishing a Control System for the Returned Goods Problem

This consideration of causes for returning goods affords us a background for developing a system of control. An effective system will cover the following points.

1. *Determine policy.*—It is necessary, first of all, that the store decide definitely just what is to be its policy regarding the returning of goods. It will be found possible to completely serve the customer in regard to the privilege of buy-

TABLE II

RETURNS GROUPED BY MERCHANDISE DIVISIONS

Rank	Merchandise	Number of Returns	Per Cent of Total
1	Home Furnishings	1,426	32.7
2	Ready-to-wear	1,051	24.1
3	Children's wear	555	12.7
4	Accessories	523	12.0
5	Intimate apparel	440	10.2
6	Men's wear	185	4.2
7	Miscellaneous	177	4.1
		4,357	100.0

Tables are summarized from *Retailing* magazine.

ing upon approval, and to secure the greatest results in good will and increased business for the store, by the adoption of a much less liberal policy than that now followed by most retail establishments.

2. *Educate sales personnel.*—The second step is to instruct the sales personnel in order that they may have a clear understanding as to just what is the policy of the store. They should be shown the reasons for the privilege of returning goods (service to the customer and increased sales), they should be made to understand clearly the expensiveness of excessive returns, and they should be informed concerning the special articles (for example, mattresses) or conditions (for example, certain sales events or keeping articles more than a certain number of days before returning them) to which the return privilege does not apply.

The program of education should aim to impress the sales people with the seriousness of the returned goods evil and lead them to be more careful in furnishing the correct goods to each customer, influencing or discouraging, as the

case may be, certain customers in regard to securing goods "on approval," and in trying to make each sale a permanent sale.

The movement on the part of leading stores toward giving the customer more adequate information as to the composition of merchandise and the qualities to be expected of it should operate definitely in the direction of reducing excessive returns. But it is not enough to formulate a stricter policy concerning returns and to try to educate the sales force concerning that policy. A third step is necessary—to make provision for a systematic check on returned goods.

3. *Check returns systematically.*—The aim here should be to keep such records of returned goods that it will be possible to easily ascertain just what and how much merchandise is returned, the reason given by the customer for the return, and how much the merchandise is marked down if it is necessary to do this in order to finally sell it. A system of this kind will enable the store to ascertain the details regarding its returned goods evil and to fix the responsibility upon certain departments, buyers, other personnel, or policies.

4. *Educate customers.*—Fourth, the store should educate customers found to be abusing the return goods privilege and close the accounts of those who cannot be educated.

5. *Cooperate in a community policy.*—A fifth step is of great value wherever it can be taken. This is getting the stores in the trade area to agree to a definite community policy of engaging in a cooperative program of educating the public in regard to the evils of excessive returns of merchandise. Cooperative advertising may be used. Names of customers abusing the return privilege can be sent in by the various stores to the control organization (for example, the retail credit bureau). Information as to the types of goods most generally returned can also be communicated by the member stores.

Acting for all of the stores cooperating, the agency receiving such information can write educational letters to those customers who have been reported by several stores as abusing the return privilege or who have been reported by any one store as returning more than a certain proportion of purchases during the year. In cases where customers do not reform as a result of educational letters, the manager of credit sales may protect his store by closing its accounts with such customers. Advertising material may be sent out by the stores as a group for the purpose of educating the consumers to buy more carefully.

Consumer Education

In Dallas an audit of 100,000 charge accounts, made for the period January to June, 1931, revealed flagrant abuse of the return privilege by many customers. Ten thousand of them had returns amounting to 20 per cent or more both in terms of dollar volume and units purchased during this period. During the six months' study, 4,700 of those who returned 20 per cent or more made purchases amounting to $417,449 and returned $210,969 or 50.54 per cent of what they bought; they made 91,230 purchases but returned 27,682 or 30.34 per cent of them.

Nature of program.—A vigorous program was adopted to combat the abuse. The Retail Merchants Association organized a "Returned Goods Bureau" with a secretary in charge, adopted a uniform policy governing returned goods, and held monthly meetings to coordinate the effort among the stores. A million copies of a pamphlet containing the "Rules Regulating Returns" were enclosed with statements and packages. A series of newspaper advertisements was used to educate customers, news stories were run in the daily papers, the rules governing returns were prominently displayed throughout the cooperating stores, especially in women's departments where the return privilege was most abused, posters were displayed on billboards throughout the city, a series of letters was sent to all cus-

tomers returning 15 per cent or more of purchases, and the cooperation of women's organizations was secured in the drive.

The effort was made to confine requests for approvals to cases of illness and emergencies. Salespeople were found by shopping tests to be weak in overcoming suggestions made by patrons that purchases should be made on approval, and the authority for granting the return privilege was generally taken from the sales force and vested in the floor man or department head. Training courses were given to the sales force to correct weaknesses in selling. As a result of the campaign, sales to chronic returners naturally showed a decrease but the reductions in returns were considerably greater.

Results.—The Dallas campaign has been concerted and continuous since October, 1931, and while the business of the department stores gained greatly in the prewar period little ground was lost in the control maintained of merchandise returns. In 1937, returns were from 20 to almost 50 per cent less than in 1930. Wartime conditions caused an increase in the proportion of goods returned until the year 1947.

By following some such community program for consumer education and training of salespeople, the privilege of returning goods can be prevented from becoming the evil which it so often is, and can be transformed into a relatively inexpensive service of great value to both the customer and the store. Errors due to the store are avoidable and can be materially reduced. Over-liberal policies pursued by the sales department can be restricted with no loss to customer or store but with considerable savings. Negligence upon the part of customers can be decreased by an educational campaign. Customers who intentionally abuse the privilege of returning goods can be reformed or, failing that, be cut off completely from the books.

Claims, Complaints and Adjustments

From time to time some customers will make claims or complaints. Some of these claims or complaints are well founded; others are unjustified.

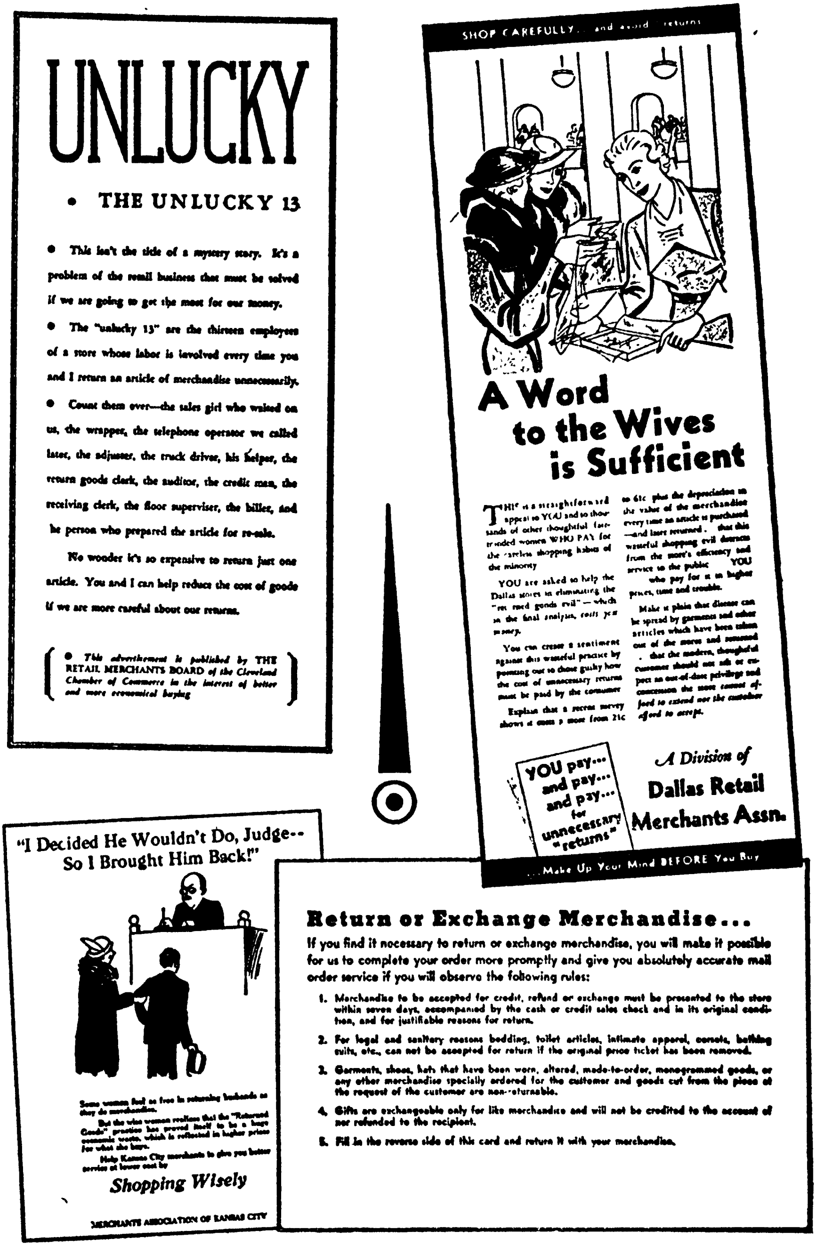


FIG. 7. TYPICAL EDUCATIONAL ADVERTISING ON THE RETURN PRIVILEGE. SHOWN AT LOWER RIGHT IS A PACKAGE INSERT

Kinds of Complaints and Claims

The complaint may often show up in the form of a request from the customer to close her account. She may complain that she received rude treatment on the floor, in the office, or from the delivery department. A complaint, again, may concern poor service; delivery may not have been performed as promised, the wrong merchandise or not all the goods purchased may have been sent; the merchandise may have been defective or unsatisfactory; there may have been incorrect postings or similar errors on the bills; payments or credits may not appear on the statement, because they were received after the closing date, and therefore cause complaints, and so on.

Form letters, such as the following which is used to answer complaints arising from the fact that statements do not show payments or credits received after the closing date, save time and expense.

Answering One Type of Complaint

Dear Madam:

The transaction about which you recently inquired was entered on your account [space for date]. In order to complete the bookkeeping work during the latter part of each month so that statements may be mailed on the first, it is necessary to close our books on the twenty-fifth of the month.

Therefore, you will notice that our statements have printed on them the following notation: "Purchases, payments made, and goods returned after the twenty-fifth of each month, will appear on the following month's bill."

Your patronage is deeply appreciated, and we trust that this explanation will answer your question satisfactorily.

Very truly yours,

In some cases installment customers will insist on an adjustment if price declines occur, or on free repairs throughout the length of the contract. Here there is little the re-

tailer can do to protect himself if he has violated the principles of securing a down payment and a rate of contract payments adequate to make the value of the merchandise substantially exceed at all times the total amount of installment payments owed.

The cause for a claim or complaint may not be due to the credit personnel, but the credit office very often will be the one to hear of it, especially if the customer has been so moved as to request that her account be closed. Claims or complaints not due to actions committed or omitted by the credit sales department must, of course, be referred by it immediately to the responsible department. In all cases, before closing an account at the request of a complaining customer the credit office should directly contact the client and endeavor to discover the exact cause of the difficulty.

Sometimes the claim or complaint can be immediately adjusted to the satisfaction of the customer. In other cases, where some time is required to make a thorough study of the matter, the credit sales department should communicate by telephone or by letter with the customer, expressing regret and the desire to be of service in stating that the matter is being referred to the proper authorities for immediate investigation.

Adjustment Policy

In regard to various types of claims and complaints the store must work out a definite and clear cut policy so that when the occasion arises and the actual facts regarding the claim or complaint are known, immediate action may be taken which may be final.

It is most important in formulating a sound adjustment policy to adopt the correct attitude in approaching the problem. That is to say, claims, complaints and adjustments should not be regarded with irritation as unmitigated evils, but should be frankly welcomed. They reveal faulty merchandise and service, suggest new and better goods and ways of doing things, and offer an opportunity to promote good will and thoroughly sell the customer on the store. It

is preferable to have the customer complain to the store, which gives it a chance to remedy the situation and preserve her good will, than for her to say nothing except to her friends.

Attaining the correct attitude toward complaints is facilitated by the realization that the overwhelming majority of the complaints are not serious and may be adjusted easily with very little expense to the firm or loss of customer good will. According to L. E. Frailey,* an analysis of several thousand complaints received by one company showed that 22.5 per cent of the complaints were honestly made and legitimate, 41 per cent were half-cocked and the result of impulse rather than reason, 23.7 per cent were "blinds" set up as a defense for lack of funds, and 12.8 per cent were initiated by pure, unadulterated cussedness.

The figures would vary in different companies but if those given are more or less average it should be possible to handle seven out of eight complaints with ultimate satisfaction to the company and the customer. Only the 12.8 per cent caused by natural-born trouble makers would cause difficulty, and would need to be handled without gloves.

Principles.—The first principle in sound adjustment procedure is to establish and maintain a definite and fair policy —an impartial policy of being willing to meet the customer half way. This means that the adjustment must be fair to customer as well as to the store, that it should not be hard-boiled on the basis that the customer is always wrong nor should it be wishy-washy on the principle that the customer is always right. The policy should be established and also maintained, which means that exceptions must be very infrequent in order to preserve customer confidence.

The second principle is to promptly acknowledge every complaint. Unless this is done, the customer may come to feel that the complaint is being ignored and become so exasperated that even though the adjustment finally offered is eminently fair, it may be insufficient to restore good will.

**American Business* magazine, July, 1937, pp. 15-16.

Acknowledgments may be made by letter (sometimes special delivery letters are used) or telephone, and sometimes a telegram or a personal call by the store's outside representative is employed.

A third principle is that adjustments should be handled by employees who possess a sales personality and mature judgment in dealing with complaints. The customer is flattered by having her complaint handled by someone who apparently possesses authority and who is willing to approach the matter sympathetically from her point of view.

A final principle is to act so as not to make the adjustment and antagonize the customer too. Often a merchant is so reluctant to make an adjustment and argues with the customer so much before doing so, that when he finally settles the claim or complaint he loses both in the adjustment made and in antagonizing the customer. If he is going to antagonize his customer, he should not make the adjustment. If he is going to take the loss represented by making the adjustment, he should do it immediately and in such a way as to offset it by increased consumer good will.

Adjustment letters.—In handling adjustments by letter, it should be realized that the structure of letters allowing adjustments should be different from the structure of those refusing to make adjustments. For example, if the adjustment is allowed the very first paragraph of the letter should start out with this pleasant fact. If it is to be denied, however, the letter should begin and also end on a pleasant note and the refusal, with reasons therefor, should be placed in a paragraph in the middle of the letter. The psychological reason for the difference in structure of letters allowing and refusing adjustment is to be found in the fact that the strongest and the most important paragraphs of any letter are the first and the last, and naturally the pleasant rather than the unpleasant thoughts should be placed in the strongest position.

In regard to complaints concerning defective or unsatisfactory merchandise, adjustments are generally made in the case of the larger stores by the department manager

concerned. He should know more about the price, quality, durability, cleaning or treatment of his merchandise than any one else. On the other hand, a specialized adjustment man to take charge of all merchandise claims and complaints might possibly handle adjustments more from the viewpoint of general good will for the store, rather than from the viewpoint of the good of the particular department. Also, it is thought that having to face the same adjustment man each time might discourage those possessing a tendency to make unreasonable claims and complaints.

It would seem worth while to keep a record of adjustments made in such a way as to spot persons who are chronic and unjust claimers and complainers. Such customers, like those who make unreasonable returns or are unreasonably slow-pay, should be discovered and recognized as the unprofitable customers which they are.

Discounts and Allowances

Certain types of customers tend to insist upon discounts or allowances from the regular prices charged. And the practice of many retail stores in the past has been to grant discounts from the standard prices to special classes of people.

A questionnaire survey of a score of retail stores in metropolitan New York has revealed that at many of the stores cash discounts were allowed to store employees and in addition to one or more of the following: clergy, charitable or religious organizations, purchasing agents, teachers, nurses, dress makers, theatrical people, interior decorators, hotels and clubs, members of the Association of Army and Navy Stores, and city employees. In one case such discounts amounted to approximately two per cent of the net sales of the store.

Discounts

Such discrimination among different customers was apparently even more widespread in the past, but the recent

trend seems to be toward the elimination of cash discounts or a reduction in the classes of customers accorded them. Special considerations justify giving employees a discount, it is generally felt, although as early as 1937 Bristol-Myers brought suit against a retail store under so-called "fair trade" laws and restrained it from granting its employees a 10 per cent discount on price maintained goods.

Giving discounts or allowances for the purpose of increasing sales volume is becoming recognized as a form of competition which often does not increase any one store's business but merely cuts into the gross income of all. Giving trading stamps for cash purchases or for payment of an account by the tenth of the month following purchase represents one form of giving a discount to one class of people. Trade stamps are illegal in a number of states, and it is questionable whether this method of giving discounts is really advantageous to the average retail store.

Christmas clubs.—A different idea is found in the Consumers Thrift Corporation Copyrighted Plan which has been used by some retail stores. In the case of the "Christmas Thrift Club," all customers who purchase from $50 to $100 in merchandise from the store before December 10 receive a credit memorandum dividend of two per cent which may be used to buy anything in the store up to the 25th of January in the following year. The dividends increase to 5 per cent on purchases totaling over $1,600. The cash customer has the total amount of her purchases entered in her pass book before leaving the store, while the payments of the charge and installment customers are entered in their pass books. Discounts are allowed on charge accounts paid in full by the 25th of the month following purchase and on installment accounts paid within ten days of date due.

The "Christmas Gift and Savings Club" plan is similar to the Christmas savings clubs still used by so many banks. Pass books are issued to customers wherein weekly deposits are recorded, and between December 9 and December 15, the pass books are redeemed with credit memo-

randum certificates covering the principal plus dividends which range from 5 per cent to 10 per cent according to the amount deposited. The credit memoranda are not cashable but are of use only in buying merchandise or in paying accounts.

Cooperative buying associations.—Another type of system for giving discounts to certain customers, whether cash or credit buyers, is found in cooperative buying associations such as that exemplified by the Association of Army and Navy Stores. The consumer-members of this association are service men and ex-service men and their families who have paid the initiation fee required. The store-members of the association give certain discounts (5 per cent or less) to the consumer-members. They appear to be the so-called higher priced stores in the various lines of business. Where only a few stores in each line in a community are members, it appears that the sales may possibly be somewhat increased because of this discount arrangement. As more stores in a given line join, or offer equivalent discounts, the advantage to the store in that line should tend to decline.

Generally, retail stores make no distinction between cash and charge sales, taking the position that charge sales are made on a cash basis, and therefore refuse to give discounts for cash. Of course, if charge sales were in reality, as well as in theory, "on a cash basis," it would mean that a store would insist on payment at time of rendition of bill or close the account.

Thus, it is argued that stores which allow credit customers to take their time in paying bills should in fairness give the cash customer a discount for cash. That is the kind of treatment the retail stores, themselves, get when they buy from wholesalers or manufacturers. If the retailer takes advantage of the credit terms of the seller, he pays the list price; if he pays cash, he gets a discount. Terms and discounts are used to stimulate collections, and to make the credit customer pay for the cost of carrying him.

Allowances

Allowances is a word used in several senses in retail trade. It is sometimes used to mean a partial credit or refund in the case of defective merchandise although we have termed this an adjustment. It is used to stimulate credit sales by some furniture, clothing and other kinds of houses which often distribute coupons good for one dollar on purchases of a certain size. It is used in the sense of a trade-in allowance in installment selling.

Allowances also refer to the settling of certain bills for a partial payment of the total amount owed. This it is necessary to do in some cases, but the manager of credit sales must always assure himself that the debtor's situation is truly just as represented and that no chance exists of collecting the full amount. Sometimes the debtor's solution lies in making a composition settlement with all of his creditors through the agency of the retail credit bureau—a matter discussed in the last chapter of this text.

In handling the problem of discounts and allowances on credit purchases the store may adopt a policy of having the persons who ask for such concessions go for an answer to the credit sales department which will not merely refuse them but will also explain the reason why the store cannot give discounts or allowances. An arbitrary or dogmatic statement that no discounts or allowances are made may often drive away a prospective customer. But if the matter is explained to the customer so that he understands that the store treats all customers alike and will not discriminate against any one, the customer can usually be secured and kept.

It is evident here that policies concerning discounts and allowances may come to constitute quite a problem for the stores in a given line or even in an entire community. If only a few stores give discounts, they may possibly profit somewhat at the expense of the great majority who do not make such concessions.

Cashing Checks

The service of cashing checks is primarily a function which banks are supposed and expected to perform. They have the signatures of their customers on file and can make positive identification which a store often cannot do in many cases. But retail stores generally offer this service as an accommodation to build good will and fear that if they should refuse, customers will go to a competitor who does cash checks. In some cities (for example, Minneapolis) it has become a rather general custom for stores to charge fees for cashing checks.

Kinds of Situations

When a check is accepted from a credit customer for payment on his account, there can be said to be no added risk involved since the credit allowed the customer is subject to final collection or payment of the check. Of course, there is the possibility of a customer settling a past due bill with a check (which later turns out to be bad) in order to be allowed to charge a large amount, and then skip out.

When the credit customer tenders his check, desiring to secure cash for it or to secure part cash and apply the remainder on his account, he should be made to indicate over his signature the amount he has received in cash. This prevents the cashing of checks at the store and exhibiting the canceled checks later as proof of payments on account.

When the customer does not have an account but wishes to purchase merchandise with a check, most stores will accept the check, whether large or small, if reasonable identification can be made. Even if he does not desire to purchase merchandise, many stores will give cash for the check in case it is small.

Identification.—The identification when a small check is given for a purchase or merely for cash may go no further than securing the address of the buyer and perhaps his telephone number.

In a large store this may be done by the floor man who O.K.'s the check. Large checks must be O.K.'d by a cashier

or by the manager of credit sales or one of his authorized assistants. A telephone call may be used to check up in making the identification and authorizing the acceptance of the check.

Post-dated checks.—Post-dated checks are accepted from credit customers in cases where convenience is served. The customer may wish to get the matter off his mind and not cause the store added effort in collection. Also he may desire to settle a delinquent balance by giving several post-dated checks.

When post-dating becomes a habit with a buyer, however, it indicates that he is living beyond his income. And when the checks turn out to be no good at maturity, or when the customer asks that they be not cashed at maturity but that new post-dated checks be accepted, the practice becomes a nuisance which can only be remedied by a firm understanding or a closing of the account.

Bad Checks

Losses on bad checks in retail stores are estimated to be relatively small, and to offset this loss the stores consider that they gain in good will and in cash sales. Some protection undoubtedly arises from State bad check laws. The better laws of this type make tendering a check without sufficient funds in the bank *prima facie* evidence of fraud, while other bad check laws require that the retailer must prove that the passer of the bad check actually intended to defraud—not always an easy task to perform in court, and if the retailer fails he may face a suit for damages brought by the bad check passer.

Procedure.—In connection with the matter of damage suits, it may be said that in instances where there are apparent attempts to pass fraudulent checks, steal merchandise, etc., the store should proceed cautiously and not physically detain offenders. The police should be called or a detective or protective agency notified, thus shifting the responsibility to others than the store or store personnel. Sharp customers and shrewd attorneys can manufacture

damage suits against the merchant out of what might appear to the layman to be very little.

The credit bureau should be notified by the store as soon as fraud is spotted and the bureau should be given full details as to the kind of fraud, the name, address, occupation, description of the person, and any other pertinent information so that it may warn other members by telephone, TelAutograph,* Teletype, bulletin or other means of communication.

"Photecto."—Pictures of persons giving checks (or of all applicants for accounts, if desired) may be taken secretly by a special, electrically controlled and operated camera called Photecto which was placed on the market in 1938. The machine is equipped with a high grade lens adapted to the lighting conditions of each place where installed, is housed in a standard radio cabinet made to match the furniture and fixtures of the office, and operates silently.

Advantages claimed for the use of the machine in the credit sales department are that it gives permanent identification of clientele and makes the store's credit system more complete; allows granting more credit accounts, permits more freedom in cashing new customers' checks, and saves losses on fraudulent purchases; identifies check forgers and persons making fraudulent purchases; permits greater cooperation with police departments by furnishing positive identification for arrests, with other stores using Photecto by interchange of pictures of forgers and crooks, and with the credit bureaus. In large department stores it may be used by the credit sales department, the check cashing department, the personnel department, and the shoplifting detail.

Forestalling fraud.—The passer of bad checks usually endeavors to do his passing in the afternoon after the banks

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*Each transmitter in the bureau is so equipped with keys that it may write to any store, any combination of stores or all stores simultaneously. It writes to one store when the message concerns that store only; to more than one when, for instance, a credit applicant gives more than one store for reference; and to all stores, simultaneously, for broadcasting all flashes, warnings and information of a general interest.

have closed. Unless the manager of credit sales can secure completely satisfactory identification or secure endorsement of the check by a thoroughly responsible person, he should refuse to deliver the merchandise until the check has been cleared at the bank. This is especially important in case the check is for a large amount.

The other usual type of retail credit fraud is unauthorized purchases on accounts by persons claiming to be the customer or his child or relative. This problem was treated in the discussion of authorization. Telephoning the customer for verification or refusing to deliver the goods except to his address (in case contact cannot be made by telephone) is the action usually taken when the manager of credit sales cannot satisfy himself as to the identification of the purchaser.

Keeping Posted on Derogatory Information

Another necessary activity in discharging the function of Controlling the Account is watching out for the development of any derogatory information concerning customers. This is information as to developments adversely affecting the willingness and ability of the customer to pay as agreed.

For example, this may be information as to domestic troubles, divorces, deaths, suits, judgments, bankruptcies, filing of notices of non-responsibility for debts of the wife, loss of job, chattel mortgages, and so on. Such information may be secured by the credit man through many channels such as the newspapers, court proceedings, conversation with others, and daily bulletins or messages from the local credit bureau.

By keeping posted on any derogatory information which develops regarding his accounts, the manager of credit sales may be enabled to act in time to protect the store in case of further purchases by the customer, or in collecting the account. Certain other problems like those concerning closing accounts, skips, slow-pays, etc., will be treated in connection with the study of the function of Collecting (see Chapters XII—XV) where they naturally belong.

Consumer Credit Education

As implied in earlier pages, efficiency in handling the special problems of credit control, as well as credit management problems in general, can be significantly increased by cooperation among retail credit granters in consumer credit education.

Local associations of retail credit managers or local credit bureaus can sponsor consumer educational campaigns through newspapers, over the radio, in the form of billboard advertising, and by means of enclosures in bills or other methods, all stressing the advantages of sound credit.

The disadvantages of buying on extremely long terms, the cost of such credit, and the danger of going into debt beyond ability to pay promptly, or of obligating oneself over too long a period, can be emphasized through cooperative educational efforts by managers of credit sales.

The advantages of sound credit and the extent to which the individual benefits through the prompt payment of his bills, the satisfaction of having a good credit record, and what is necessary to build and maintain such a record—all can be stressed to the consuming public in these cooperative educational programs.

In such programs, at times, attention of consumers can be directed to each of the special problems treated in this chapter and to other problems so that the consuming public may be educated to habits that will contribute toward ever better service for it in credit granting stores. Concerted action in the education of credit buyers will prove to be of distinct advantage to consumers and credit granters alike.

The problems we have been discussing in this and the preceding chapters are mainly concerned with controlling the account so as to protect the store. Now we shall examine those activities in control which are primarily for the purpose of increasing business from credit customers.

QUESTIONS

1. What do you consider to be the special problems of credit control calling for measures to protect the store as well as to maintain good will?

2. What are the advantages of the return privilege to the store? To the customer?

3. In what ways may the return privilege be disadvantageous to the store and the customer? What is your explanation of the fact that returns are much less on cash than on credit sales?

4. Why do customers return goods? Who is usually at fault, the store or the customer?

5. Outline a community program for reducing the returned goods evil.

6. What are some of the complaints which may come to the attention of the credit sales department?

7. On what principles would you construct a sound adjustment policy? How should letters allowing adjustments differ in structure from those refusing?

8. What types of discounts and allowances do you consider sound?

9. "The service of cashing checks is primarily a function which banks are supposed and expected to perform." Why, then, should stores offer this service free? Why not?

10. What is derogatory information and from what sources may it be obtained by the manager of credit sales?

CHAPTER X

CREDIT SALES PROMOTION

(*Fundamentals; Active Accounts*)

The control exercised by the manager of credit sales in handling authorization and special problems is, as we have seen in the preceding three chapters, primarily concerned with protecting the store. But "Controlling the Account" requires that control also be exercised to promote full and correct use of accounts by the store's customers. It is to this subject that this and the following chapter are devoted.

Importance of Credit Sales Promotion

The average retailer doing a large credit business usually gives considerable thought to the problem of securing new accounts. And this is an important division of credit sales promotion as indicated in Chapter II. But too often we overlook the fact that the best source of additional sales volume lies in cultivating the customers who are already on the books. The ability and willingness of these customers to pay is definitely known by the manager of credit sales whereas the paying habits of prospective new customers, who may have been reported as satisfactory to the bureau by other stores, may not measure up to the standards maintained in his store.

Various estimates have been made by credit men as to the cost of putting a charge or installment account upon the books and the estimates range all the way from $2.50 to $10 per account. Cost of acquisition naturally varies from store to store, but it is evident that the accounts on a store's books represent an investment and should be regarded as a valuable asset.

If the cost of acquisition is $5 per account for a particular store with 20,000 accounts, it has made an investment of $100,000. And it is natural that it should give some atten-

tion to methods of reviving inactive accounts and of promoting full use of active accounts in order to make use of this valuable asset to the fullest extent.

Inactive Accounts

The possibilities for increasing sales volume by keeping present customers from becoming inactive and stimulating them to additional buying often seem striking.* Analysis of one store showed that out of its 9,950 accounts, 6,789 were active, but 3,161 were inactive, having made no purchases for five consecutive months. As a result of credit sales promotion directed at the inactive accounts, 989 of them were revived within three months and their purchases during this short period amounted to $23,262.

In another store a study showed that 7,966 or about 35 per cent of the 22,336 active accounts became inactive for a period of five consecutive months. Such figures indicate that control is needed to prevent accounts from becoming inactive. In department and specialty stores, inactive accounts probably run from 15 to over 40 per cent of all charge accounts. The proportion apparently tends to be larger in the small stores and in the southern part of the country.

Use of Accounts by Active Customers

Not only do accounts become inactive if control is not exercised, but there is need to stimulate buying on the part of those who do remain active. For example, in the average store a large number of customers buy so little as to be actually unprofitable. Many others do not patronize the store fully, and relatively few customers buy all that they could or might buy from the store. According to one analysis, almost one-half (49 per cent) of the goods sold by the average store are bought by only 16 per cent of its customers. The other 84 per cent of its customers account for only 51 per cent of its sales.

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*See Dean Ashby, "Credit Sales Promotion and Customer Control," 1936, and "Promotion and Control of Retail Credit," 1947, N. R. C. A.

Patronage of Different Departments

A third important reason for exercising control to stimulate buying by present customers is revealed by the fact that extraordinarily large proportions of those customers who are active patronize only one or a few departments of the store. Here are some examples. In one case 52 per cent of the store's customers had made no purchases in the dress department for a period of nine months, but as a result of a campaign $22,018.75 worth of dresses were sold them within seven weeks at a cost of 1.8 per cent. In another case 1,393 customers had patronized the dress department, but 1,420 had not. A campaign directed to these 1,420 customers sold 390 of them dresses, amounting to $29,368.80, at a cost of less than 1.1 per cent for the campaign.

In a survey of a Denver men's clothing store it was found that 75 per cent of the charge customers were trading in only 25 per cent of the departments. An analysis of the 9,958 active customers of a department store showed that over 50 per cent of them had not patronized more than five out of the 19 departments in the store during a period of 12 months. Twenty-seven per cent had bought in only one or two departments.

Thus, it seems clear that much attention is justified in "Controlling the Account" to keep the store's present customers active, and to increase the size and number of their purchases. In connection with the latter objective, attention should be directed toward getting the customer to patronize more of the important departments.

Is Credit Sales Promotion Worth While?

Any retailer can get some idea of the probable advantages of following up inactive accounts and stimulating more business from active customers by calculating what the average credit customer is worth to his store. This may be done by dividing the annual sales volume of charge customers by the number of accounts in his ledgers, and doing the same for his deferred payment customers.

A survey made of department and specialty stores a few years ago showed that the net average annual charge sales per customer ranged from about $30 to almost $500 in the various stores reporting, and averaged about $120 per customer. The net average annual deferred payment sales ranged from about $40 to slightly over $100, and averaged approximately $70 per customer. The sales per customer on charge account or on deferred payment accounts vary greatly depending upon the size of the store and the section of the country.

Furthermore, it is well known that most of a store's annual sales volume comes from old customers already on the books—the proportion may run as high as 85 or 90 per cent of annual sales volume coming from old customers and only 10 or 15 per cent from new customers secured during the year. This would seem to indicate the desirability of some effort to get back accounts which become inactive and to stimulate active customers to buy in larger volume.

The Responsibility of the Credit Manager for Credit Sales Promotion

In recent years it has become more widely recognized that the manager of credit sales has not only the responsibility of protecting the accounts receivable of the store but also the obligation of promoting the credit sales.

To say that the credit man should be sales minded is not singling him out for added responsibility. For everyone in the store who comes in contact with its clientele, from the lowest paid employee to the highest official, has in addition to his particular technical responsibility the important duty of selling the store to the customer and contributing in all ways possible to the increase of the institution's business. After all, a retail store is primarily a merchandising or selling establishment.

As far as credit sales are concerned, it seems logical to expect that the manager of credit sales shall take the initiative in promoting that part of the business. Because of the

personal nature of the credit interview and because of his detailed records of the purchasing habits and the condition of each account, the manager of credit sales is in a far better position than anyone else in the store to know: when an account has become inactive, which accounts are in a position to buy more as well as those who are so slow or so unsatisfactory in their dealings with the store as not to merit promotion activity, which customers are able to buy expensive merchandise, which customers are approaching the end of their deferred payment contracts and will be ready for further sales, and so forth.

It appears reasonable, therefore, that the manager of credit sales should take the initiative and assume the responsibility for credit sales promotion through reviving inactive accounts and inducing active customers to increase their patronage.

Fundamentals of Credit Sales Promotion

The activities of the credit sales manager in promoting credit sales volume will be considered here in two major fields: 1. reviving inactive accounts; 2. stimulating more business from active accounts (the third field of securing new accounts having been treated in Chapter II).

Certain fundamental principles underlie the successful performance of both of these functions, and after considering these we will take up the special considerations with regard to each in turn, active account promotion being considered in the remainder of this chapter and inactive account revival in the next. It might be stated in passing that some store owners and credit managers are opposed to both activities, and that in regard to the methods used there is considerable difference of opinion. However, the trend seems to be definitely in the direction of recognizing the value of well-thought-out programs for reviving inactive accounts and for stimulating greater use of accounts by active customers.

Some fundamentals underlying credit sales promotion in general are the following:

1. The effort must be consistent.
2. The responsibility for results should be placed upon one person, preferably the manager of credit sales.
3. Proper preparation. There must be a definite plan carefully prepared in advance governing the entire credit sales promotion program and each part thereof.
4. The sympathetic backing of the store management must be secured. This is especially necessary since the credit sales promotion work will require an appropriation for advertising and office work.
5. The credit sales department must enlist the wholehearted cooperation of the sales and advertising departments so that all may work together smoothly and effectively for successful credit sales promotion.
6. Various methods may be used, it being realized that a plan which is successful in one store may not be desirable or effective in another.
7. Customers must be kept in an open-to-buy position since this is a prime requisite for preventing accounts from becoming inactive and for getting more business from active customers.
8. Effort should be concentrated upon those who are able to buy.
9. The appeals used both in following up inactive accounts and in stimulating active customers to buy more should be specific and concrete.
10. The promotion activities directed toward both inactive accounts and active customers should not be so aggressive and intense as to annoy the customer.
11. The effort should be personalized to that extent which is ascertained to be most profitable in following up inactives and in stimulating present customers.
12. The results of efforts to revive inactives and of attempts to stimulate more volume from actives should be checked so as to reveal which methods and activities are profitable and which are not.

Necessity of Customer Analysis

Of course, all operations which make for more efficiency and customer satisfaction help a store to get more business from its present customers. Prompt authorization, a fair policy in regard to returns, and the efficient discharge of other measures whose purpose is primarily to protect the store also result in increased customer satisfaction and tend to keep and increase business from present customers. But here we are concerned with positive rather than preventive measures, with activities which are primarily directed at the cultivation of customers and are not undertaken for protective or preventive purposes.

The problem of customer cultivation raises important questions. What is the customer buying? Can her patronage be directed to other departments? When, how and why does she buy? Can the amount of her buying be increased?

To ascertain what the customer is buying, requires the use of some method of analyzing the use of accounts by customers. In the small store, the credit man or owner can run through the ledgers and affix various colored signals to the ledger sheets indicating the departments in which the customer is buying.

Analyzing Accounts for Customer Control

Some large and most small stores may feel that the plans for customer control installed by companies specializing in developing such systems for retail stores are too expensive. However, any store can work out a system of its own, making it as simple as desired.

Simple systems.—The first step in customer control is simply analyzing the ledger sheet of each customer to ascertain in which departments she buys and which ones she does not patronize.

The information may be coded on the edge of the ledger sheet, or may be entered on file cards and a card index made of customers classified by departments which they are not patronizing or in which their buying is small,

or Addressograph plates (if this equipment is used) may be tabbed to indicate the major departments in which the customer is buying or is not buying.

Another method is to have forms printed specially to serve as customer control sheets. These sheets may be about a foot wide by 14 inches long and have numbered vertical columns to represent the various departments of the store. The customers' names and addresses are written on the horizontal lines and, by using pencils with different colored leads, check marks or symbols may be made to show at a glance just what department each customer patronizes for several years and when (spring or fall) the purchases are made. Such a system as operated in the B. Forman Company, Rochester, New York, is maintained by one girl, who uses the sales checks after they have been balanced on the customers' accounts.

Having established some kind of simple system for showing the departments in which the customer buys and those in which she does not buy, the second step is to decide upon methods of bringing the desired departments to the attention of the customer. The objective is not necessarily to go to the extent of getting the customer to buy in each and every department, but to stimulate activity in any of the several most important departments in case they are being neglected by the customer.

Special systems.—For the larger stores, systems of customer control, like the Findex, may be desirable.

In such customer control systems, each active account is represented by a card showing the customer's name and address and having spaces indicating each of the main departments in the store. At the end of each month, the customer's card is punched so as to indicate in which departments purchases were made. By running a rod through the hole indicating a specific department, the cards having been punched to indicate purchases in that department can be shaken either off the rod or slightly out of position, so that it is an easy matter to see just which customers have and which have not patronized the department.

After analyzing the use of accounts by customers, methods of increasing the total purchases of a customer and of guiding her into unpatronized departments must be developed. The usual answer here is direct mail advertising, stressing sales events and certain departments.

Operating Principles

Three principles are of outstanding importance in formulating any program for getting more business from present customers whose accounts are active.

1. *Keep customers in an open-to-buy position.*—The most important principle of all is to keep customers in an open-to-buy position. This means that prompt payment according to terms must be required. And this, in turn, necessitates a policy of restricting or suspending credit privileges on delinquent charge or installment accounts until those accounts are brought to terms.

Too often the retailer persists in the mistaken policy of allowing further charge purchases or installment purchases on accounts which, according to the terms of the store, are already past due. Superficially, this seems to be a way of getting more business out of present customers, but the effect is only temporary. In the long run, the most profitable business is secured from customers by enforcing a policy of prompt payment, which means requiring that charge or installment accounts be brought to terms before additional credit purchases are added to the accounts. It is the paid-up customer who is in a position to buy.

Necessity of temporarily suspending slow accounts.—It may appear that the customer who has become slow pay but who has been allowed, nevertheless, to increase his account without paying up the past due balance first, regards this as a favor. Perhaps he does, but just the same he naturally tends to act in such a way as to reduce his buying from the store.

After he has been allowed more and more credit without having had to first bring his account to terms, he sooner or later tends to feel that he has got in pretty deep at the

store. And although the retailer may be willing to let him have still more on credit without paying up the past due balance, or even if he encourages and urges the past due customer to add to his account, the latter voluntarily restricts his buying at the store, and satisfies his needs by buying at stores where his accounts are in good shape because those stores have required him to settle any past due balances before securing more on credit. He will buy from these stores, settling promptly each month, a large volume of purchases while he very slowly pays off the old delinquent account at the first store.

Thus, the retailer who thinks that he is doing both the customer and himself a favor in allowing the former to add still more to a past due account is following a mistaken policy which will tend to reduce the total business secured from the customer. The number of stores following a policy of suspending further credit privileges upon an account after it becomes 30 or 60 days past due increased considerably in the prewar decade, and during World War II a suspension policy was required by Regulation W. The technique of suspension is so practiced as not to cause offense to the customer.

Method of handling suspension.—As soon as accounts reach a certain degree of delinquency, for example 60 days after the first of the month following the month of purchase, they are flagged or signaled so that attempts to purchase upon them will be referred to the manager of credit sales or his delegated assistant. When an attempt is made to secure more credit on such an account, the matter may be handled as follows.

If the account is in good condition and the request is for only a small charge or a minor add-on (on an installment account), the credit is usually passed, and a letter is written to the customer stating that an exception has been made in the store's policy and requesting that the account be brought to terms before additional credit is requested. The account is marked so that if the customer pays no attention

to the courtesy extended and attempts to get still more on credit without making any arrangements for paying, a personal interview will be required and the goods will be held pending this.

If the account is in poor condition or if the amount of additional credit sought is large, there are no preliminaries as above. The goods are held and the customer is contacted. If the customer will pay the past due balance or make a definite arrangement which will restore the account to a prompt paying basis within a specified short time, the credit may be passed.

Thus, although all past due accounts are flagged or challenged, actual suspension of credit privileges would occur only in those cases where the customer refused to pay the delinquent balance or refused to make any arrangements which would restore the account to terms. It is plain, therefore, that the policy of temporarily suspending credit privileges on past due accounts is reasonable and could not possibly offend any except those who are apparently determined to beat the store.

It should be emphasized that no amount of dunning or threatening can possibly keep customers prompt-pay and in an open-to-buy position unless the store follows a definite policy of suspending temporarily further credit privileges on delinquent charge and deferred payment accounts. Thus, this policy is indispensable for every firm wishing to get more business from its present customers.

2. *Concentrate on those who are able to buy.*—The usual methods employed in stimulating more business from present customers are direct mail advertising, the telephone and personal contact. But in using such methods to carry on a campaign of credit sales promotion, the manager of credit sales should not scatter his efforts. He should pick out and concentrate his campaign upon those who are most able to respond.

This means, of course, that such effort would be wasted if directed at accounts which are past due. A monthly age

analysis, which is the practice of about a quarter of the larger stores, will show the names of the customers who are owing only for current balances and who are therefore the best prospects, and it will show those who are still owing for balances 30, 60, 90, 120 days, etc., past due and who are therefore not good prospects. The age analysis may be given to the dress department, shoe department, or some other department which it is desired to promote, and direct mail advertising, telephone or personal contact may be used in the case of the customers who are shown to be in an open-to-buy position. In the small store, even though a monthly age analysis may not be made, the manager of credit sales can easily run through his accounts and pick out those to whom sales efforts should be directed.

Concentrating upon those who are able to buy also means selecting for special cultivation those customers who are shown to be heavy buyers and possessed of large incomes. For example, attention may be directed toward trading these customers up; or the store may be seeking to promote certain high priced merchandise which only this type of customer could easily buy, and sales promotion directed toward other customers who have small incomes and buy small amounts would be wasted.

3. *Make the appeal specific.*—Direct mail advertising for the purpose of credit sales promotion should make an appeal which is specific. Letters which merely beg the customer to come in and buy or which merely talk about "great values," "big sales," "bargains," and so on are too abstract. They should be made concrete and specific. For example, if the letter does happen to be about a coming sale, it should if possible mention one or more specific items like "Kendall blankets—$11.95. Four full pounds of warm, fluffy virgin wool. Full 72 by 84 inches. Beautiful solid colors. Satin bound. You may have them laid away and delivered at a future date."

The appeal of the letter may be made specific in emphasizing the offerings in certain departments which it is desired to promote. Also special letters may be sent to those customers who have bought in some departments and not in others, directing their attention to attractive buying opportunities in the neglected departments. In order to do this, it is necessary to have a customer control system, as previously described, so that it is easy to ascertain for each customer which departments she has and which she has not patronized. An example of this type of letter as used by E. F. Horner, Credit Manager of Kline's in St. Louis, is shown below.

DIRECTING ATTENTION TO NON-PATRONIZED DEPARTMENTS

Dear Mrs. Jones:

We try to keep in as close touch with our customers as possible—to know what their real opinions are of our store and our service.

Since our only way of judging your opinion is through your purchases, we have examined your account carefully, and find that while our lingerie and hose have succeeded in pleasing you, our dresses and coats apparently do not meet with your approval.

The success of these Departments and their progress in every way give us confidence to ask you wherein they are lacking in your opinion.

We are anxious to serve you as completely as possible, throughout the entire store, and any suggestions that will improve that service in any way will be more than welcome.

Won't you let us know what your requirements are, that we may try to measure up to them?

Sincerely,

KLINE'S

When an account has been opened by the wife, the manager of credit sales often sends a letter to the husband inviting him to make use of those departments in the store

which cater to men. And from time to time during the life of the account direct mail advertising may be sent to the husband.

Getting More Business From Deferred Payment Customers

Stores follow different methods in endeavoring to stimulate more business from their budget and regular installment accounts.

Some wait until the budget or installment account has been paid in full and then promptly send the customer a letter thanking her for her prompt payment, and either offering her the privilege of a regular charge account (if investigation has revealed her worthy of it) or calling attention to other specific merchandise which may be purchased on the budget or regular installment plan. This letter is usually followed up at the end of 30 days if no response has been received. In department, furniture and other stores having outside representatives, the list of paid-up deferred payment customers is often given to the home furnishings department or other departments featuring installment merchandise so that new business may be solicited.

Other stores start earlier to attempt to increase business from their installment customers. As soon as a certain number (usually half) of payments have been made promptly, a letter is sent to the customer thanking her for the prompt way in which she is handling her account and mentioning specific items which the store would be glad to have her add to her account without requiring a down payment.

Methods of Stimulating Business From Active Customers

Increasing the volume of business from active accounts by means of direct mail has already been discussed. The telephone may be used by the credit sales department to bring unusual items to the attention of active accounts, as

well as to revive inactives by mentioning items appropriate for telephone selling. According to one study, displaying the telephone number of the store prominently in advertisements resulted in a considerable increase in sales as compared with advertisements not featuring the number. Personal calls by representatives of the credit sales department also may be used to cultivate the business of both active and inactive customers and to secure new accounts.

Outside agencies may be employed to analyze and stimulate the patronage of active and inactive customers. For example, the Willmark Service System, Inc., has established the Willmark Research Corporation to make customer surveys for the purpose of finding out what customers like or dislike about the store, what they want but are not getting, what their demands are as to price, style and quality, the reasons at the bottom of their complaints and returns, and to test the efficiency of the store's advertising and sales promotion, and analyze its inactive charge accounts and reactions to credit policies.

Having discussed the fundamentals of credit sales promotion, and active account cultivation in particular, we may now take up the problem of reviving inactive accounts which is the subject of the following chapter.

QUESTIONS

1. Give several reasons to indicate the importance of credit sales promotion.

2. To whom should be assigned the responsibility for promoting credit sales? Why?

3. Into what three main fields may credit sales promotion be divided?

4. What is meant by "customer analysis" or "customer control"? Describe systems appropriate for small stores and for large establishments.

5. What do you consider to be the outstanding principles in any program for getting more business from active customers?

6. "In the long run, the most profitable business is secured from customers by enforcing a policy of prompt payment, which means requiring that charge or installment accounts be brought to terms before additional credit purchases are added to the accounts." Why?

7. Explain how credit privileges may be temporarily suspended on delinquent accounts without causing offense to customers.

8. What do you understand by "Age Analysis"? Give reasons for and against making a monthly age analysis.

9. How may increased patronage by active budget and installment customers be secured?

10. What methods of stimulating business from active customers would you recommend for the small store? The large store?

CHAPTER XI

CREDIT SALES PROMOTION

(*Reviving Inactive Accounts*)

What Is Meant by the Revival of Inactive Accounts?

It is not always clearly understood just what is included in reviving inactive accounts. For instance, some apparently think this refers only to letters which either call attention to the customer's inactivity or inquire as to the reasons for her cessation of patronage. These kinds of letters are used, it is true, but more often the message employed should be a regular sales message calling attention to some particular event and usually not referring at all to the subject of inactivity. And it is generally agreed that the best type of appeal in inactive follow-up is the use of such specific sales appeals.

An example of this confusion is found in the case of one retailer who stated that he was not sold on a program for reviving inactive accounts since letters sent to his inactive customers did not cause any appreciable increase in buying. He failed to take into consideration that his practice had been to send all customers advertising literature each month and therefore was already carrying on a continuous campaign to revive his inactive accounts. Inactive account follow-up includes all efforts made to induce a customer who has not purchased on credit for a month or more to resume buying. It thus includes direct mail advertisements of special sales events such as stores often send to their lists of credit customers.

An account which becomes inactive is very usually not really "inactive." The customer may not be buying at the store, but very likely may be buying somewhere else, and the so-called inactive customer may be on the way to becoming a permanently lost customer.

Principles of an Effective Program for Reviving Inactive Accounts

Any program for reviving inactive accounts should take into consideration certain important principles. These may be briefly summarized as follows:

1. *Consistency.*—The work must be consistently done. Haphazard methods or irregular campaigns are generally lacking in effectiveness.

The inactive account revival programs of stores differ greatly. Some put on a drive or campaign regularly once or twice a year. For example, a letter may be sent at the beginning of the Christmas buying season to all those who are shown as inactive on the books at that time, and no more attention given to the inactive problem until a few weeks before Easter or before Christmas next year.

Others engage in irregular efforts. A series of two or three letters will be sent to all inactive accounts contained in the ledger and further effort postponed until some indefinite future date when it appears that it would be a good thing to give the problem consideration again.

Such periodic or irregular activities are better than giving no attention at all to inactive accounts. But more and more firms are adopting the practice of regular routine follow-up just as they pursue a regular follow-up in their collections. At the beginning or end of each month, inactive follow-up is started upon those accounts which have reached a specified number of months of inactivity, and follow-up is continued on other inactive accounts which have previously received treatment but which have not yet responded.

2. *Promptness.*—The follow-up on inactive accounts should be prompt so that customers do not have the opportunity to acquire new habits of trading in other stores.

In stores which treat the revival of inactive accounts as a routine matter, the first follow-up may be sent out as soon as the account has been inactive for one month in the case of gasoline filling stations, food stores, and similar lines of business where steady purchasing is expected each

month. In department stores and similar lines the follow-up may begin after sixty days of inactivity but usually it does not start till the account has been inactive for ninety days.

3. *Specific appeal.*—The appeal in the follow-up should be compelling—like mention of some special sales event or some particular reason for the customer to come in and resume buying—not a mere statement that the customer has been missed nor a general invitation to come in and buy, nor a simple query as to whether the store has done something to displease the customer.

In the direct mail program for both reviving inactive accounts and stimulating more buying from active customers, the appeal should be made in the form of giving some specific reasons for buying. For either purpose, no matter when the letter is sent out, there is always some particular, timely appeal which can be made.

For example, a study of his sales will show the retailer that for any one month there are certain goods which are seasonal or are more heavily bought by customers. Each month, as every one in retail trade knows, has its special promotions, or goods which are most timely during that particular month. Attention may be centered on these goods or departments in direct mail sent out to inactives or to stimulate present customers.

The letter on page 213, sent out during the latter part of November, says nothing about the inactivity of the account but presents as a specific buying appeal the idea of a piece of occasional furniture as a Christmas gift and specifies appropriate departments of the store.

If regular inactive follow-up results in no response, sooner or later, after the customer has been sent direct mail advertising and reminded that he has been missed, the program calls for a letter aimed at ascertaining whether "anything in our service or merchandise has caused you to discontinue using your account. If so, won't you frankly tell us what it is?"

Specific Seasonal Appeal to Inactives

Undoubtedly, as a Sloane charge customer, you think of us at once when considering the gift of a charming piece of occasional furniture at this holiday time of year.

But do you know also of the numerous Sloane shops planned with the happy solution of your year-'round problems in mind, and especially those of Christmas?

Our Four Centuries Shop, with its rare antiques; our gay Closet Shop; LeBain, with its many novel suggestions; our very complete Bar Shop; our large Lamp and Accessory Shop; our exceptionally interesting Gift Department—these are awaiting you now with an infinite variety of decorative and useful objects, all marked, I need hardly remind you, by the unerring good taste for which Sloane has so long been noted.

Your charge account should offer even more than the usual convenience at this season, and I am thus pleased indeed to assure you that its privileges are still at your full command.

Faithfully yours,
Vice President.

This question is asked in the letter on page 214 which also gives two specific reasons for buying in mentioning the recent air conditioning of the store and the offering of a new brand of hosiery and lingerie.

If the store is sincerely interested in actually getting a response, a return envelope or card requiring no postage should be enclosed. And it should be made easy for the customer to jot down a reply either by providing a form for it at the bottom of the letter or by enclosing a card or slip bearing a few questions which may be checked and a space for remarks.

It is often effective to use a different size and quality of stationery from that generally used in the firm's correspondence with customers for this letter, and to have it signed by some official. In extremely large institutions, it

Specific Buying Appeals to Inactives

We are extremely sorry to find that your account with us has not been used for some time. We hope that it cannot be attributed to any lack of service on our part. If so, we should sincerely like to know of it and be given the opportunity to adjust it, because frankly, we have missed you. We have always found it a genuine pleasure to help you fill your fashion needs, and it will make us indeed happy to be extended that privilege again.

In all modesty, we honestly believe that Garland's is to be the favorite shopping place in St. Louis this summer. We have installed a complete air-conditioning system throughout the entire store—the most modern type available, which now makes Garland's the most comfortably cool place in the mid-west for shopping distinctive fashions.

Please come in soon. It will give us great satisfaction to see you using your charge account again.

Cordially yours,

Manager, Dept. of Accounts.

P.S.—Perhaps you did not know that we are now carrying a complete line of Vanity Fair Hosiery and Lingerie, that nationally-known name that means so much to smart women.

may be better to have the letter signed by a vice-president than by the president since many customers will feel that the head of a great institution has not time to write letters to every customer whose account becomes inactive.

4. *Selection of appropriate method.*—The follow-up method found to be successful in one store is not necessarily suitable to another. Some of the methods used are: Blank statements with a mimeographed message calling attention to a buying opportunity, blank statements with a sticker, a piece of direct mail advertising such as a mimeographed sales letter or a printed leaflet or broadside, tele-

phone calls, visits of the store's field women, hostesses or outside representatives, form letters over the signature of the president or some high official.

There is much use of the blank statement as the first step in an inactive follow-up program. Small stores often wait until the end of the month to make out statements covering the purchases of the month. But larger stores head up a statement for each customer and then during the month post the charges made by the customer to her statement and ledger sheet. Thus, at the end of the month there usually will be a certain number of statements which

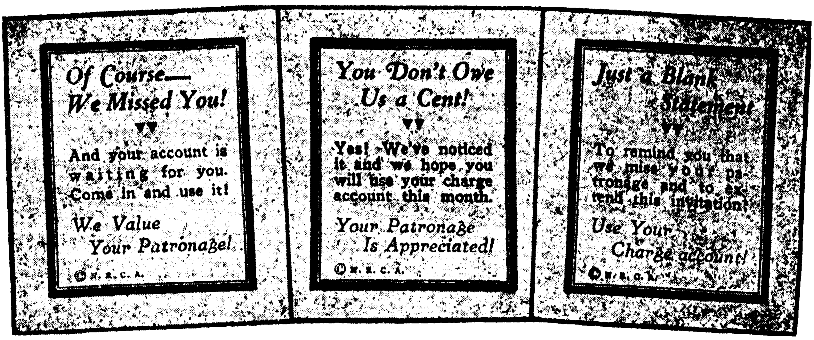

FIG. 8. "INACTIVE ACCOUNT" STICKERS FURNISHED TO MEMBERS BY THE NATIONAL RETAIL CREDIT ASSOCIATION.

had been headed up with the customer's name and address but which have no charges for the month.

An inactive account sticker may be placed on each blank statement. Or a sales message of three or four lines may be put upon an Addressograph plate, and the blank statements run through the addressing machine.* Or a multigraphed or mimeographed message may be put on the face of the blank statements—sometimes very good imitation handwritten messages are placed on them by use of the mimeograph.

*About four out of five of the larger department, dry goods and specialty stores use the Addressograph for heading up statements.

The blank statements may be treated this way for several months, and then to those accounts which have not responded a series of inactive letters may be sent. The same may be said of the use of blank statements for inactive follow-up as may be said of any other method employed in handling credits and collections in retail stores. That is, some managers of credit sales report very successful results; others have never used it or feel that it is ineffective or undesirable. In short, whether it is a good or bad method depends upon how it is used and upon the needs of the particular store.

Some installment houses go beyond merely communicating with inactive accounts, and offer special inducements. One practice is that of mailing a certificate good for $2, or ten per cent, or some other amount, on purchases of a certain size. Or the privilege of buying without a down payment may be offered. Another practice where the store handles budget accounts through coupon books is to send out a $25 or a $50 coupon book, whichever the account will justify, to all paid-up budget customers who have been inactive for 90 days after completion of payments on their accounts.

5. *Routine vs. irregularity.*—The inactive follow-up should be conducted as a part of regular routine rather than in the form of irregular campaigns. That is to say, instead of sending a message to all inactives once every year, or a few times a year, inactive follow-ups could start at the end of each month on all those accounts which by the end of that month had attained a specified degree of inactivity (30, 60, or 90 days, depending upon the kind of business and clientele).

Other than direct mail advertising matter, the first message may simply take the form of sending the inactive customer his blank statement bearing a notice in the form of a sticker, rubber stamp, multigraphed or written statement referring to the inactivity. The practice of putting a mes-

sage on the blank statement calling the attention to some particular article or specific sales event is probably more effective.

This first step is usually followed in 30 or 60 days by another notice or a letter containing a sales appeal. Later efforts may take the form of telephone calls, visits by representatives of the store, or a personalized letter from the president or some high official. Even if no results are forthcoming, the customer may be kept upon the mailing list to receive the direct mail advertising of the store for a period of a year or several years.

There is the problem of active accounts becoming inactive and also the problem of new accounts being opened and not used. In order to follow up the new account, some managers of credit sales make an additional copy of the credit application at the time of opening the account and file this copy in a tickler file. At the end of some specified time, for example, 30 or 60 days, reference to this file is made to see whether the customer has made use of her new account, and if not, follow-up begins upon this "inactive" account which was never active.

6. *Definiteness of program.*—There should be a definite plan specifying just when the follow-up on inactive accounts should begin, exactly what methods will be used and in what order, how many attempts will be made, their sequence and the amount of time to elapse between them, and when the solicitation shall be abandoned.

In preparing for the follow-up, customers should not only be classified as being good accounts and worthy of follow-up but also as to whether in town or out of town. Some stores which employ representatives can have them visit their inactive accounts in town but have to handle the out-of-town inactives by letter. Also certain special services may be offered to the out-of-town customer, like the personal shopping service, in following up those who become inactive.

7. *Tone of follow-up.*—The follow-up should not be so aggressive and intense as to annoy the customer. Some letters go at the customer as if to put her on the spot and command her to give an accounting of her behavior. On the other hand, the apologetic letters in which the firm humbly begs to know whether it may have in some way offended the customer have become annoying, due to their frequent use, and tend to undermine good will.

In letters making any reference to the inactivity of the account, it is generally thought better to make this reference at the end after having emphasized some special sales event or called attention to some particular article in the first part of the letter. Too many letters which bring up the matter of inactivity will tend to annoy the customer. This subject of inactivity, therefore, should be mentioned only toward the end of the follow-up.

8. *Personalized approach.*—Personalizing the message in the follow-up is expensive but extremely effective. Letters may be personalized by mentioning some credit purchase made by the customer, or contact may be made over the telephone or through the visit of the store's representative. Stores using such personalized methods of reviving inactive accounts have been successful in restoring from one half to three quarters of the inactives to a renewal of buying. The personal contact method is also the best for bringing grievances to light and reselling dissatisfied customers. When an inactive customer has responded to the follow-up, it is usually thought worth while to send her a thank you letter as soon as she has begun purchasing again.

9. *Checking results.*—The results of the program to revive inactive accounts should be scientifically checked. This is because there is some expense connected with efforts to revive inactive accounts, and the question arises: Would not these accounts which are claimed to have been revived through the inactive account program have resumed buying anyway? To ascertain what proportion of inactives become active again of their own accord and what additional proportion are restored to active buying again

through the revival program, the experiment should be conducted for a time with a control.

That is to say, one half of the inactive accounts may be followed up and the other half receive no treatment. At the end of a sufficient period of time, say six months, the two groups should be checked to see the relationship between the number of the treated group who have resumed buying and the amount of their purchases as compared with the untreated group. The results should indicate very clearly whether the revival program is worth while for the additional profits, if any, may be compared with the expenses incurred. Accurate record of the expenses properly attributable to this program should, of course, be kept.

In checking the results, a sticker, card, or slip of paper may be attached to the ledger sheet of each inactive customer to whom a message has been sent. Then when purchases are made upon this account, notation of the amount may be made on this memo when charges are posted, and the memos may be totalled by the person in charge of the study.

10. *Concentration on worth while accounts.*—The inactive revival program should be selective. In preparing the list for follow-up only those accounts whose revival would be desirable and worth while should be selected for treatment.

For example, some of the so-called inactive accounts are those which have been voluntarily closed by good customers, while others have been closed by the store for a cause. Some have never bought enough to repay the cost of putting them on the books, and the possibility of their ability and willingness to purchase enough to cover the cost of attempted revival may be problematical. Some may have paid so slowly that an accurate analysis of their business would show that it had been handled at a loss, and unless the customer is one who has purchased in large volume and is considered amenable to prompt-pay education revival effort would not be justified.

Desirability of Inactive Revival Programs

Disadvantages of Inactive Account Revival Programs

Not a few retailers oppose campaigns for reviving inactive accounts. The arguments are about as follows:

1. Effort to revive inactive accounts is unprofitable. The amount of business which results in addition to the business which would result anyway because of the customer's voluntary resumption of buying is negligible. Often this criticism results from those who are sending direct mail advertising to all their customers, and do not realize that this direct mail advertising constitutes one major method of reviving inactive accounts.

The costs of reviving inactive accounts seem to range from about one to three per cent, and the proportion of accounts revived runs from 10 per cent to 65 per cent or more.

2. The inactive customers may be buying at the store for cash, and revival of the account would simply decrease the cash business. The customer may prefer to pay cash. This objection could not be urged against sending direct mail advertising matter but only against those types of follow-up which may call attention to non-use of the account.

3. The follow-up program if not very carefully done may annoy some customers. So many stores are now keeping after their inactive accounts that some customers may become irritated at a barrage which seems to come from all sides, unless the follow-up is made in an indirect manner and does not play up the subject of inactivity.

4. Some retailers feel that following up inactive accounts tends to cheapen credit. But whether it does or not seems to depend on the way it is conducted.

5. Some feel that the results are impermanent; that it is an endless task; that the revived customers will buy only once, and the store will have to keep after them endlessly.

Advantages of Inactive Account Revival Programs

1. *Increased profits.*—The first advantage claimed is that a program for following up inactive accounts produces a larger volume of business from these customers than would otherwise be obtained. After paying for the cost of follow-up there should be realized a net profit in addition to that secured from inactive customers without follow-up.

It should be realized that in comparing the costs of reviving inactive accounts with the sales volume secured from restored buying, the comparison should not be made with just the buying in the first month after revival, because the revived accounts will continue to buy for some time.

2. *Discovering faulty policies and methods.*—Some sort of inactive follow-up of the "reason why" type would be justified if for no other reason than to discover the things which fail to please or which antagonize customers of the store. It is just as important to keep customers as it is to get them in the first place. Often it costs more money to put a new customer on the books than the profit obtained on the first purchase or purchases. And it is usually easier to resell an old customer than it is to get a new one.

In sending out "reason why" letters, the ledger sheets should be coded or checked to show that this form was mailed and the date upon which it was dispatched. When returns are received, the store knows why the customer is not buying, and the proper remedy may be applied by getting in touch with the customer through mail, telephone, or personal call. A customer who has been inactive for a considerable amount of time is certainly buying elsewhere, and no merchant can afford to adopt the passive attitude of being indifferent to the turnover of his customers. He must find out why this turnover occurs: misunderstandings, faulty methods or policy, things being done which the owner of the store does not know about, and so on. Securing complaints will enable the store owner to know what to do about the problem of customer turnover.

Customers usually quit a firm without any explanation. So, after a certain amount of follow-up of direct mail ad-

vertising, there should be a letter asking the customer whether the firm is at fault. It is questionable whether it is psychologically sound to invite criticism or to suggest that the firm has not treated the customer fairly, but in the last letter of the inactive follow-up program it is necessary and desirable for the store to frankly go into this matter with the customer.

Thus, even if following up inactive accounts did not result in the resumption of buying on the part of any of them, a certain amount of follow-up would be worth while just to find out faulty methods and policies which might be remedied.

3. *Cultivation of good will.*—Inactive follow-up when properly done is generally felt to create a great deal of good will. This is because a customer likes to know that she is appreciated and that the cessation of her patronage has been noted. Even the customer who has stopped charging and has begun to buy for cash in the store likes to know that her apparent absence has been noticed and will often write or call the store to make it known that she is still patronizing it.

Again, the customer may fancy herself offended and, although there may be certain things she may desire to buy in the store, may feel somewhat stubborn and drift away unless the store makes an overture through the inactive follow-up which gives her an opening, allowing her to make her complaint and go back to trading without losing her face. In business, as in life in general, the satisfactory settlement of a disagreement makes friendship stronger than before.

Some have asserted that they are skeptical of the large increases in volume of sales claimed by those who follow up inactive accounts, because it strikes them as strange that inactives who respond so readily would have so easily drifted away from the store. Yet responses received to "reason why" letters indicate that while some specify grievances in regard to unfair adjustments, poor service, complaints against the credit sales department, and so on,

many state that nothing unsatisfactory had been done by the store but that they had simply drifted away. In these cases where the customer has drifted away for no special reason, often a letter which shows the customer that the store is interested in her account is enough to stimulate return of patronage.

The credit customer is not tied to the store.—Perhaps most customers have accounts in only one food store, one department store, one furniture store, and so on. But many customers, especially those who have large incomes and buy heavily, have accounts at competing stores in each of the main lines of business. And in the case of many items, it is of no consequence to these customers whether they purchase in one store or from its competitor.

They may tend unconsciously to give more and more of their business to one store for no special reason. Inactive follow-up letters of the type mentioned to such customers may very understandably produce high returns in increased buying, since the customer would just as soon buy in one store as in the other, and wishes to patronize the firm where "she is appreciated."

The old fallacy that a charge account ties a customer to a store still persists. It may have been more nearly true in 1900 when few people had accounts and those who did probably had only one account in each line of business. But it is not true today as shown by the fact that the average retail store loses about 20 per cent of its charge customers each year and that many a customer is buying on credit from two or more competing stores at the same time. Inactive account revival programs should be helpful in cutting down some of this loss. According to one analysis, 82 per cent of inactive customers drift away because they have a feeling that the store does not show them sufficiently that it values their patronage.

4. Finally, as a result of inactive follow-up names of those who have moved away* or who have died are revealed

*Addresses of inactives may be kept up to date by use of Post Office Form 3547, return postage for which is guaranteed.

and much deadwood may be cleared out of the indexes—a large store may be able to take hundreds or thousands of names out of the indexes and credit reports out of the files.

How Long Should Inactive Accounts Be Kept in File?

Some stores destroy accounts after a year or so of inactivity, while others keep the records of inactive accounts for several years and get out a direct mail promotion for them once or twice a year. At a convention of credit men one participant made the statement that he did not believe in revival campaigns, and that when he recently rearranged his index, he tossed 42,000 inactive accounts into the wastebasket.

On the other hand, according to *American Business* magazine, Grunbaum Brothers (furniture) in Seattle keep the Addressograph plates of customers who have not used their accounts for a period of ten years in a special file cabinet, and as a result of circulating them with a piece of direct mail and a "special credit invitation" twice a year, December 1 and June 1, derive 70 per cent of their volume from these inactives. The special credit invitation states that the customer is on the "store's preferred customer list and is to be accorded special consideration." It is said that checks after heavy buying months have shown that these so-called inactives top new account openings by from 22 per cent to as high as 70 per cent.

How long inactives should be kept on the mailing list seems to depend largely upon the kind of business engaged in by the store. For example, it may be that at any particular time a far larger proportion of the customers of a furniture store are on the inactive list than is true in the case of a department store since a customer's buying from the former may tend to be recurrent while her purchasing from a department store would tend to be more steady. And her patronage of a grocery store or filling station would probably be even more constant.

At this point, after having examined the activities of the credit sales department in authorizing, handling special

problems of control, and promoting sales to active and inactive accounts, we finish our study of the function of "Controlling the Account" and are ready to consider the final function—Collecting.

QUESTIONS

1. "Some apparently think that reviving inactive accounts refers only to letters which either call attention to the customer's inactivity or inquire as to the reasons for her cessation of patronage." Why is this viewpoint too narrow?

2. Should a store's inactive account revival program be a regular, an irregular, or a routine activity?

3. What are some of the methods which may be used in reviving inactive charge accounts? Deferred payment accounts?

4. What is your opinion of the blank statement method?

5. How would you check the results of a program to revive inactives so as to convince yourself whether or not it was worth while?

6. Discuss the arguments against campaigns for reviving inactive accounts. To what extent do they appear to you to be sound?

7. "Some sort of inactive follow-up of the 'reason why' type would be justified if for no other reason than to discover the things which fail to please or which antagonize customers of the store." Why?

8. "Critics are often skeptical of the large increases in volume of sales claimed by those who follow up inactive accounts, because it strikes them as strange that inactives who respond so readily would have so easily drifted away from the store." Explain why this may not be so strange.

9. How long should inactive accounts be kept in file?

10. What are the main divisions in the function of "Controlling the Account"?

BOOK III
COLLECTING

CHAPTER XII

FUNDAMENTALS OF COLLECTIONS

Here we come to the third and last major function in credit management. Since credit transactions consist in exchanging present goods or services for a promise to render a future equivalent, it is necessary to perform the function of collecting the future equivalent—getting the money in. The collection function is indispensable because few consumers will pay before the rendition of a formal statement of account, which is the first step in collection activity. And very many customers do not pay even then because of negligence, inability, or unwillingness to pay, all of which causes are largely due in the final analysis to failure of creditors to educate consumers in the sound use of credit.

Even if a condition could be conceived where all credit customers paid before bills were due, thereby eliminating the need for sending out statements, a function of collection would be necessary. There would still be need for the activities of making out saleschecks to specific persons, keeping records of their debits and credits, and receiving cash and giving receipts therefor to specific individuals.

There are several aspects to the problem of achieving collection efficiency. First, there is the matter of determining collection policy. Second, there is the question of organizing an effective collection system. Third is the problem of the collection procedure to be followed and, fourth, the methods to be employed in using the system to carry out the procedure. Let us first examine the subjects of collection policy and system to make clear certain principles of prime importance.

The Collection Policy and Collection System

1. Educate the Customer to Pay Promptly

It is often said that the motto for successful collections should be "Get the money and keep the customer." This is very good as far as it goes, but it does not go far enough. The prime objective should be "Educate the customer to pay promptly," because if this is done you not only get the money and keep the customer but also achieve three great benefits which are not obtained by a policy which merely gets the money sometime or somehow without losing the customer.

These three advantages to the store owner, the customer, and the manager of credit sales, respectively, which flow from the principle of building collection policy around the central idea of promptness, are of the highest possible importance.

Advantage to store owner.—Prompt payment of charge and deferred payment accounts benefits the store owner who is primarily interested in volume and profits. This is because it is the paid-up customer who is in a position to buy more, and because educating customers to pay promptly reduces the cost of doing business by eliminating the expenses and losses arising from slow payment by customers. According to the National Cash Register Company, the reasons for educating customers to pay promptly are as follows:

Why Past Due Accounts Should Be Collected Promptly

1. Customers are usually better able to pay when the account is new.
2. Customers who understand that a merchant expects his money at the time agreed upon have more respect for him, especially when they know that he "plays no favorites."

3. Prompt paying customers will learn that they do not have to bear the heavy losses due to the bad debts of others.
4. Collection is more difficult and the expense increases with the age of the account.
5. The merchant is entitled to the money he paid for the goods and his profit.
6. The earlier the account is paid, the sooner will the debtor buy again.
7. The trade of past due accounts is usually transferred to some other merchant. This is not fair, of course, but nevertheless is usually an actual fact.
8. Remember—"Money tied up earns no interest."

It may prove helpful not only to the credit man but to the store owner to realize that when goods are sold on credit, the store still owns the goods although the merchandise itself may have been delivered to the customer. In other words, the merchandise has been converted into symbols or figures representing an account, and until the account is liquidated in full the merchant still owns his original inventories.

The original cycle of business was: cash—inventories—cash. But when credit was introduced into the picture the cycle was changed to: cash—inventories—accounts receivable—cash. And just as a merchandise buyer cannot go to market if his stock is too old or too big, no matter how good a "buy" he has on hand, so the customer cannot go to market—that is buy in the store—if her account is either too big or too old or both. This analogy should explain to the satisfaction of the merchandise department or the store owner why the credit sales department cannot add to an account which by reason either of its size or age is questionable.

Benefit to customer.—The customer benefits from being educated to pay promptly because this habit keeps him in a sound financial condition, prevents worry, makes him a better worker and a happier individual. Studies of consumer bankruptcy, like those made by the U. S. Department

of Commerce, show plainly the disastrous effects upon the consumer of the unwise credit policies of many retailers.

There is the closest possible relation between unwise extension of credit and lack of a prompt-pay collection policy. Fundamentally, unwise extension of credit means simply giving the customer more credit than he can pay for promptly. Worst of all, after the consumer has failed to pay promptly, thereby proving that he has been given too much credit, the retailer often allows him to have still more credit before paying his past due bill. This puts the customer still farther away from attaining a prompt-pay standing.

It seems obvious that what the retailer should do is to suspend credit as soon as the customer fails to pay promptly, removing the restriction as soon as the account has been brought to terms. Such a definite policy in collecting which will educate customers to pay promptly is absolutely necessary because prompt-pay customers may tend, under the influence of high pressure salesmanship and advertising, to become slow pay. And slow-pay customers tend to become still slower and finally to become hopelessly involved in debt from which they must seek relief through compromises with creditors or bankruptcy.

The soundness of the suspension idea was increasingly recognized even before World War II experience. A credit manager wrote regarding his conversations after the 1938 credit conference: "There are some concerns who thought that six months was a perfectly good credit basis for opening charge accounts but who are now contemplating shutting off credit to customers when bills are not paid in 60 days. They have finally seen that they are in the business of distribution of merchandise and *not* either in banking or philanthropy. They are beginning to recognize that while merchandise may be sold safely to customers on their promise to pay in the future, the transaction is not completed until the promise to pay is kept. The greater the length of time between the promise and its fulfillment diminishes

the amount of profit unless it is otherwise compensated for or protected by carrying charges or adequate security. That's all there is to credit.

"We also feel that by putting everybody on the same basis there will be no exceptions and that if credit already extended is not paid for within some reasonably short period, certainly no more credit should be extended. Of course, there are certain exceptions that come up that require different individual treatment due to unemployment, sickness, etc., which is another matter entirely."

Advantage to manager of credit sales.—The benefit to the manager of credit sales in following a collection policy built around the central purpose of educating customers to pay promptly is that it gives him the opportunity to make the finest possible contribution to the lives of these people. By persistently educating them to pay promptly, the manager of credit sales is building character and making happier and finer men and women. It is this opportunity to play a definite part in building and strengthening the character and moral fabric of hundreds or thousands of people that raises his role above the plane of a common job.

Collecting is fundamentally a matter of salesmanship: selling the customer on the idea of paying promptly. It is not salesmanship in the sense of letting some or all customers pay as they please or name their own terms.

2. Decide Upon a Definite Collection Policy

Just as it is necessary to have a clear-cut, definite policy in regard to extending the credit privilege, making adjustments, handling returned goods, and all the other major activities included in the first two main functions of securing new customers and controlling the accounts, it is necessary to determine upon the details of a specific policy covering collections.

This must be considered as a part of the general credit and collection policy of the firm. Thus, a store may have a policy of liberal credit granting and liberal collections, liberal credit and strict collections, strict credit granting

and liberal collections, or a policy which is both strict in granting credit and in collecting. The more important questions to be decided in framing a definite collection policy are the following: (a) What shall be the nominal terms? (b) What shall be the actual terms? (c) How shall customers be classified so as to "treat accounts individually"?

When are accounts to be payable?—In the case of charge business, shall the rule be adopted that accounts are payable on the first of the month following the month of purchases, on the tenth of the month, by the fifteenth, during the month, or at some other time? The practice which appears to be becoming most popular is to state the requirement about as follows: "Accounts are due on the first of the month following purchase and past due after the tenth."

Of course, the average retailer is satisfied if the account is paid during the month following purchase and in some cities the merchants generally permit 30 or 60 days. But the National Retail Credit Association does not advocate such a policy, nor the practice of letting customers know that the store is willing that the account be paid any time during the month following purchase. In regard to deferred payment selling, it is not unusual to select dates of payment for the installments with regard to the dates of receipt of income by the customer.*

What shall be the actual terms?—Formulating a definite collection policy requires that a store not only decide on its nominal terms (i.e., when accounts are to be payable) but also its actual terms (i.e., when the store really expects to get the money).

Very usually stores whose nominal terms (as explained to customers in opening accounts) are 30 days have actual terms of 90 days. That is to say, the customer is told that the terms of the store are that bills are payable on the first

*In the case of department, dry goods and specialty stores apparently most contracts are dated for the first payment to come due one month from *today* unless that would be very inconvenient for the customer, while so-called installment houses arrange payments according to pay days.

of the month following the month of purchases. But the truth is that the store does not require payment according to the express terms, being satisfied if payment is made any time within 60 or 90 days after the date specified to the customer. Many stores do not have any actual terms at all, at least in the case of certain customers who are allowed to pay their bills anywhere from three months to a year after they are rendered.

Determining the policy of the store in regard to actual terms, if it is to be done in a definite manner, simply means deciding how many days shall be allowed to elapse after delinquency before suspending charge privileges on any account.

What classification of customers shall be made as to treatment to be accorded in collection follow-up?—Very generally, retail credit managers classify their customers in three main groups: good, fair and poor, which are sometimes designated as Class A, Class B, and Class C.

Whereas collection follow-up in the form of statements and reminders, and the maximum amount of time allowed to elapse after delinquency before accounts are restricted or suspended, should in the interest of fair dealing be the same for all classes, the length and strength of the follow-up as a whole may differ according to the three classes.

The Class A customer who is both able and willing to pay, but sometimes is negligent, is handled with a follow-up which moves mildly and slowly. The Class B customer who is perfectly willing to pay but of limited ability, and is often of the "good but slow" type, must be handled with a shorter follow-up which rapidly becomes insistent. This numerous class of credit buyers often need advice and assistance in working out methods for paying their past due bills.

The Class C or poor customers include: 1. those of great willingness but very small capacity to pay, 2. those of little ability and willingness, and 3. those who are able to pay but refuse to do so until they are compelled. The "collect

sharp" treatment is necessary here. The follow-up must be quickly carried from the mailing of the statement to decisive and final action.

3. Establish a Semi-Automatic Follow-Up System

The collection systems in use in retail trade are numerous and vary in detail from store to store, but there are certain fundamental requisites to be met by any system.

These requisites are: (a) an accurate record must be kept of each step in the collection process until final disposition is made; (b) accounts should be brought to notice automatically at the proper time; (c) there must be the least possible duplication of records and effort; (d) provision should be made for classifying or segregating the accounts into three ledgers or categories: current, delinquent, and suspense or attorney; (e) the system should be arranged so that cash received is posted daily to the collection records before it goes to the general bookkeepers in order that these records will be kept up to date daily; (f) records should be safeguarded from loss and destruction.

Collection Systems

It is to meet such needs as these that the collection system, composed of suitable records, filing devices, forms, and office equipment and machinery, should be constructed. In short, the collection system is the mechanism utilized by the manager of credit sales as he applies various collection methods according to a definite collection procedure.

To be effective, the system must be organized so that the follow-up on each account shall begin promptly and succeeding efforts shall be regularly directed to the account. Unless collection procedure is systematized, statements will not go out on time, customers who have become delinquent will not be promptly reminded, and those who have been reminded will not be regularly contacted again and again until results are secured.

Probably the most important requisite for successful collection activity is the regularity and persistence with which accounts are followed up. For example, some managers of credit sales feel that if notices were sent out as regularly as the calendar, using nothing but plain statements showing balance due, for the first five or six collection efforts they would yield remarkable collection efficiency. The thought is that the statements might go out on different colored paper but would need to have no wording on them at all, their collection appeals being due to clock-like regularity and persistence. The idea may be extreme, but it does illustrate and emphasize the important truth that regularity and persistence are indispensable for best results in collection follow-up.

The more automatic the collection system is made, the more of the routine work can be done by clerks, thereby releasing the manager of credit sales for creative work and for dealing with special individual cases. Even where the store owner or the credit man does all of the credit and collection work himself, making the system as automatic as possible reduces trivial and everyday matters to a routine and permits him to have time to devote personal attention to the really important and exceptional cases.

Types of systems.—There are three main types of collection follow-up systems: (a) those based upon the accounts receivable ledger, (b) tickler systems, and (c) visible card systems.

Single Ledger Systems

Some stores, particularly the smaller ones, use the single ledger system where one ledger or set of ledgers is used not only for posting and billing but also for authorizing and collection—no separate authorizers' files or collection ledgers are used.

One practice is to divide the ledger into two sections, the current accounts being placed in the front section and the

delinquent accounts in the back of the ledger. At the end of the month those current accounts which have become delinquent are transferred to the rear section. The location of an account in the ledger automatically indicates whether it is current or delinquent and the complete collection record is contained on the ledger sheet.

Keeping all accounts in one ledger is claimed to be more convenient for the authorizer, and for the bookkeepers in stuffing the ledgers and in posting them, as well as for the

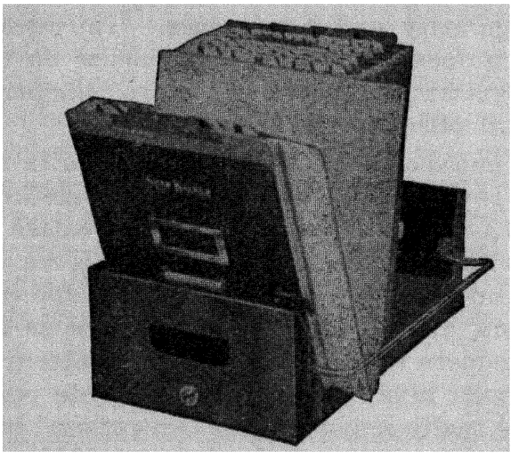

FIG. 9. VERTICAL LEDGER. COURTESY OF SHAW-WALKER.

collection department. Interference in carrying out these various activities may arise in case there is only one ledger, but where there is a set of ledgers conflict may be largely minimized by bookkeepers working on the ledgers that are not in use by the collection department.

Instead of placing current and delinquent accounts in separate parts of the ledger, many small stores affix a colored file signal or flag to the ledger sheet of each delinquent account and run through the ledger once or twice monthly. In the case of installment business, both small and large stores usually maintain a separate collection

record in the form of some kind of a tickler collection system or visible card system.

Tickler Systems

In the case of tickler collection systems for charge account or deferred payment business, a collection card may be made out for each account to be followed up and the card moved ahead after treatment.* Thus, if a certain collection letter is sent to a delinquent today (say, on the fifteenth) and it is desired to take the next step in the follow-up ten days later, the customer's card is marked with the notation of the number of the collection letter sent and the date, and the card is then filed in the 25 division of the file so that when the twenty-fifth of the month arrives the account will automatically be brought to attention, can be checked to see whether payment or response has been received, and the next step in collection procedure determined.

Instead of collection cards, some firms use special printed tickler collection forms, others use duplicate statements, and still others use statement stubs. Not all statements used in retail trade have stubs, but where such statements are used, the stub may be printed with a form to facilitate keeping a collection record and may be imprinted with the name of the customer at the time the statement is made up. When the statements are mailed out, the stubs are detached and used in place of collection cards or other methods for follow-up.

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*Or ledger cards carrying the collection record may be given prefix numbers (1 to 31 in case of monthly payments) and filed numerically, first by prefix number and then in numerical order behind each prefix number guide. Two sets of guides are used. As payments are made, the cards are transferred from one file to the other, and those left behind are delinquent.

In the Remington-Rand Kardex deferred payment accounting plans, the ledger or collection cards may be arranged in a visible file according to numerical sequence by due date. Progressive signalling of payments on the margin of the visible cards makes it easy to locate at a glance those requiring attention each day. Also, provision may be made for pre-determined balances, date stamp posting, and stencil addressing of collection notices, with resultant elimination of considerable lost motion (see Fig. 10 on p. 241).

Firms in the department and specialty store lines using the collection card method generally do not make out cards until the account has become 60 days past due, thereby cutting down on the amount of work necessitated, although the larger stores prepare their slow sheets or collection records between the tenth and the fifteenth of the second month (or even the first month) after purchase. Firms using duplicate statements as the basis of collection follow-up secure these duplicates as a by-product of making out the regular monthly statement.

Visible Card Systems

There seems to be a tendency in the larger stores, for charge account as well as deferred payment collections, to use separate collection records in the form of visible cards kept in either loose-leaf prong binders or in metal filing cabinets (see Fig. 10 on page 241).

The margin of the visible card may show numbers from one to twelve to represent the months of the year, and by marking with pencil in the numbered space for the proper month (or by indicating it with a signal) the exact status of the account is visible at a glance. The visible card, in the case of charge business, often contains the credit history of the account (application form and space for keeping the collection record for a number of years), and may be used for credit authorization purposes in place of a separate authorization file.

Finally, it may be pointed out that in some stores collections are worked from age analysis sheets which are made up at the end of each month and show the name and address of each delinquent customer, the amount of his indebtedness and the length of time it is past due. When any of the above systems is used properly, it automatically brings to the attention of the manager of credit sales or collection man each account as soon as the next step in follow-up is called for.

4. Treat Accounts Individually

No collection procedure can be entirely automatic or mechanical. There must be definite rules and routine covering every problem and activity practicable. But this does

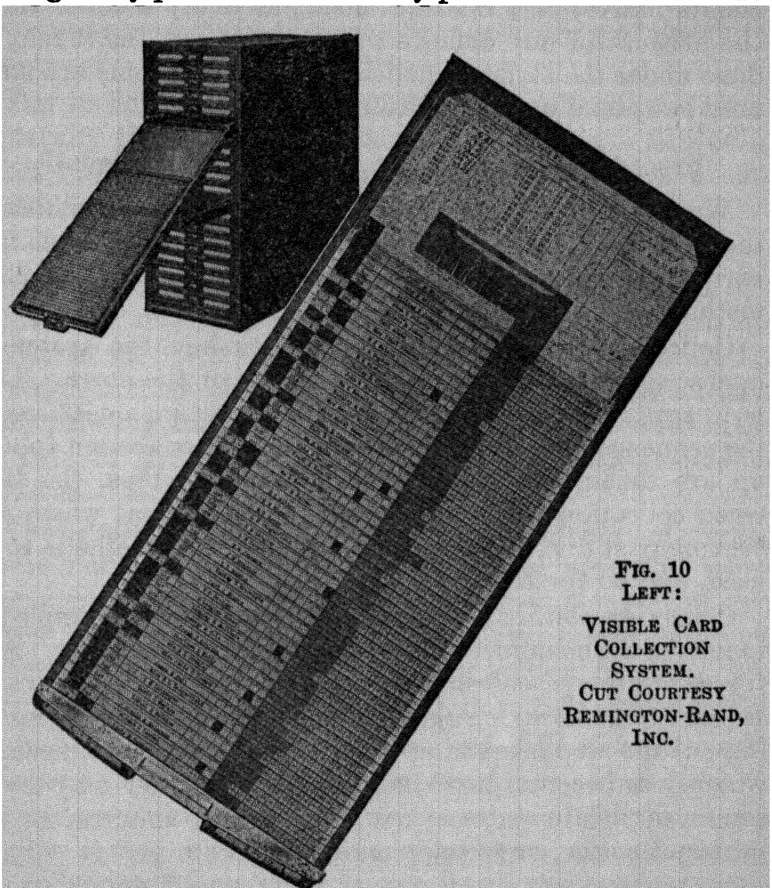


FIG. 10
LEFT:
VISIBLE CARD COLLECTION SYSTEM.
CUT COURTESY REMINGTON-RAND, INC.

not mean that accounts are not treated individually in collection as well as in opening and in control. There will always be particular cases arising which will require the exercise of much sound judgment and will justify exceptions.

On the other hand, unless there are a semi-automatic follow-up system and clearly defined rules regarding the time

when unpaid accounts shall be restricted or suspended, exceptions become the rule and "treating accounts individually" in such a sense can only result in low efficiency and react against the best interests of the store. Treating accounts individually does not mean, as many seem to think, the absence of any definite collection policy, for it may be done under the strictest policies where exceptions are made only in special and extraordinary cases.

Procedure and Methods in Collection Follow-Up

We have been discussing the problems of establishing the collection policy and the collection system. Let us now turn to the questions of collection procedure and collection methods.

Collection *procedure* has to do with how the system is operated so as to carry out the policy of the store. That is to say, it is concerned with such important questions as the sequence in which the various steps of collection follow-up are taken, the time elapsing between steps, the time when collection follow-up begins on an account which has become past due, the choice of the collection methods to be used, and so forth.

Collection *methods* refer to the various means employed to induce the customer to pay and to protect the store. And for each step in collection procedure there is a choice of several methods which may be used. For example, in carrying out the step of making the first reminder to an account which has become past due, the method used may be to send a duplicate statement, a short form statement, an impersonal notice, or to telephone, and so on.

Problems in Collection Procedure

Some of the important questions which arise in determining collection procedure are the following.

How soon shall the first reminder be sent out when an account becomes delinquent?—In the case of charge accounts, there is great variation in the practice of retail stores. Leading stores in grocery and similar lines sell-

ing goods which are immediately consumed send out the first reminder within a few days after the first statement is rendered. On the other hand, some department and specialty stores do not begin to send any reminders until 60 days or more have elapsed after the mailing of the statement.

But in deferred payment business, the first reminder is generally sent out very much quicker—within a day or so after the account has become delinquent if it is a weekly installment account, and within five days if it is a semi-monthly or monthly installment account.

How many steps shall there be in the follow-up and how much time shall elapse between steps?—In charge account business, stores with so-called liberal policies provide for a larger number of steps or collection efforts, and a longer time between efforts, before arriving at final decision than is true of the stores having strict credit and collection policies.

In installment selling, there is more uniformity, generally three notices being sent before decisive action is taken, the length of the intervals between notices being dependent upon whether the account is a weekly, semi-monthly or monthly account. Some installment sellers, however, provide for seven or more notices or letters before final action.

In all firms using long drawn out collection follow-up, the tendency is to shorten the interval between steps as the follow-up on an account draws to a close. In the case of stores having a large number of accounts, a usual practice in collection follow-up is to run down the ledger from A to Z and then the succeeding month the ledger is worked from Z to A. This tends toward greater regularity in contacting the customers and prevents those in the latter half of the alphabet from enjoying an advantage over the others.

What tools and methods shall be used in the various steps of the follow-up?—At practically every stage of the follow-

up as already mentioned, the manager of credit sales has a choice to make between various tools and methods to accomplish the step desired.

Steps and Methods in Collection Procedure

Collection procedure should move in a regular and orderly way through a series of steps, the collection effort gradually becoming more and more insistent until final decisive action is made. The analysis of the procedure may be divided into the following five logical steps: 1. sending the statement; 2. reminding the customer; 3. requesting response; 4. insisting on payment; 5. final action.

1. *Sending the statement.*—The mailing of the itemized statement is the first step in collection follow-up.

If the terms of the store are that accounts are payable on the first of the month following the month of purchase, the books should be closed several days before the end of the month so that statements may be prepared and mailed in time to reach the customer on the due date. If the fifth or the tenth of the month is set as the due date, books may be closed at the end of the month and bills got out on time. Getting out statements promptly is important since customers tend to pay the bills first received and let the others wait. Also it permits any complaints to be handled promptly so that there will not be interference to collection procedure from this source.

Time of closing books.—The practice of closing the books a few days before the end of the month rather than on the last day is opposed by some who claim that it arises not so much because of a desire to get bills out on time as because of pressure from the sales department to stimulate sales volume at the end of the month by advertising to customers that they may have the charges placed on next month's bill.

This is said to be bad psychology because sales events could be timed to fall on the first few days of the new month just as well as on the last few days of the old month. Competition between merchants often results, each attempt-

ing to close his books earlier than his competitor. But customers in general probably prefer to receive statements covering all purchases made during the full calendar month.

It is said to be bad business because practically all stores close their own books on the last day of the month, and when customers' books are closed earlier, there are two sets of records to harmonize, resulting in unnecessary work. Furthermore, since a store operates in a cycle of 12 calendar months, it is urged that nothing is to be gained by shifting activities around from one fraction of a month to another. Finally, it is pointed out that with modern bookkeeping systems it should not be difficult to get statements in customers' hands by the third or fourth working day at the very latest if books are closed on the last day of the month. Among the larger department, dry goods and specialty stores, only about three out of every ten close their customers' books on the last day of the month; the great majority close from four to five business days before the end of the calendar month in non-cycle billing setups.

Installment practice.—In the case of installment selling, in addition to giving customers a copy of the contract, stores often send the customer a form letter specifying the terms, especially in the case where the installment sales have been made by outside salesmen, to prevent misunderstandings. Also when a sales finance company has bought an installment contract, it sends the customer a letter advising him of the fact and stating the terms. Very usually, accompanying this letter is a coupon book containing dated coupons for each installment so that the customer may tear off the correct coupon as each payment date comes around, and send or bring the coupon with the remittance to the sales finance company.*

Finally, some installment sellers use what might be called a pre-follow-up, sending the customer a notice a few days

*A variation is the "Instalvelope," put out by Remington-Rand. This is a coupon book for installment payments which includes, in addition to the customer's payment record, a complete series of self-addressed return envelopes, which in turn incorporate the required information for speed and ease in proper crediting.

before each payment falls due. These pre-follow-up notices perform the function for which the coupon books, just mentioned, are used.

2. *Reminding the customer.*—All those customers who do not respond to the notification given them in the first step must be reminded that their bill or payment has become past due but no remittance has been received.

Tone.—The tone of the first reminder, whether in charge account or installment selling, should be mild, because the only assumption reasonable to make at this point is that the customer has simply overlooked the matter. The customer may have been negligent, or may have been out of town, or there may have been some serious disturbance in the family due to accident, death, and so on.

Methods.—Many methods are used for giving the customer the reminder in this second step: form notices in the shape of a card or slip of paper about three by five inches in size; duplicate or short form statements with or without a reminder message in the form of a sticker, insert, or written, typed, or rubber-stamped appeals; telephone calls; or form letters. In the case of charge accounts, collection letters should be reserved for later steps, but if a letter is used for this first reminder, it should be a very short one—equivalent to a notice.

Installment sellers generally use a printed notice for the first reminder, although in some cases, particularly where the buyer is located at a distance, a rather lengthy letter is used for the first reminder because it is desired to include a sales appeal to keep the buyer sold on his contract.

Content.—As for the content of the first reminder, *at the minimum* it must bring to the customer's attention the amount owing, the fact that it is past due and no remittance has been received, and a request for payment. Usually some reference is made to the fact that the matter has apparently escaped the notice of the customer.

The first reminder should go further than this, however. Certainly it is worth while in this message to restate the

terms if it is sincerely desired to follow the policy of educating the customer to pay promptly. Also, in the case of installment selling many feel that it is advisable to cover two more points in the first reminder: a message to keep the customer sold on his contract and a statement that future installment payments must be made according to terms.

Timing.—Finally, the question arises as to when the first reminder should be sent. This varies greatly depending upon the line of business and the kind of credit involved as well as on the strictness or laxity of the firm's collection policy.

Typical leading food merchants, and others in lines which sell goods or services for immediate consumption, remind the customer within a few days after the account has become past due. Installment sellers also send out the first reminder promptly, within three days in the case of weekly or semi-monthly contracts and within five days on monthly contracts. Department, specialty, and similar stores are often very lax in getting around to this second step in collection follow-up. Some of them may send a duplicate or second statement when the account has become 30 days past due but will not send any other reminder until it is from 60 to 70 days past due.

The better stores, however, mail the first impersonal reminder within five days after charge accounts have become past due. For example, if the terms are that bills are payable on the first of the month and past due after the tenth, the first reminder is sent out on the fifteenth. This is not too close a follow-up since the first reminder by nature is an innocuous and inoffensive notice, and by its impersonal form impresses the customer that he is not being singled out for attention but is receiving the same treatment accorded all others in similar circumstances.

Furthermore, such early mailings of the first reminder are necessary if monthly charge accounts are to be kept such in actual practice. If the first reminder is not sent until accounts are 60 days past due on the basis that earlier

follow-up would be too close, it is difficult to see how accounts under such a follow-up could really be expected to be *monthly* charge accounts. It is interesting to find that in a prewar N.R.D.G.A. survey 34 per cent of the stores reporting considered an account past due at 30 days, 39 per cent at 60 days, and 10 per cent at 90 days, while others specified still longer periods.

3. *Requesting response.*—In a strict collection policy credit privileges are temporarily suspended on installment accounts and on Class C (the "poor-risk" type) charge accounts at the time the first reminder is mailed. Suspension occurs later in the case of Class A and Class B accounts.

Those customers who do not react to the simple reminder sent in Step 2 are automatically subjected to the third step of collection follow-up. The message used here not only reminds the customer but also asks for some kind of a response.

Tone.—The tone is still mild and courteous because while it cannot be assumed that the customer is simply overlooking the bill (since it has been brought to her attention again by the reminder), the only logical attitude to take is that there is some valid reason why payment has not been made. And there are plenty of possible reasons: there may have been a mistake in the billing; the customer may have been dissatisfied with the goods or the treatment received; she may be temporarily financially embarrassed, and so forth. Since such reasons, rather than any intent to defraud or unwillingness to pay, may be the cause of the failure of the customer to respond, the store would not be justified in adopting a harsh tone at this stage of the follow-up.

Methods.—The purpose in this step is "to get a rise out of the customer"—to find out *why* the customer is slow in paying so that the manager of credit sales may know what should be done to remedy the difficulty. The methods used are generally similar to those employed in making the first reminder. Impersonal notices on paper or card stock about three by five inches in size are much used both

in charge and deferred payment procedure at this point. Telephone calls and short form letters are also used.

Content.—The content of the messages in this step is similar to that in the preceding stage of the follow-up, but in addition the customer is asked to advise the store of her reason for non-payment.

Timing.—How much time elapses between the second and third steps of the follow-up depends upon the kind of credit involved (charge or deferred payment), the line of business, and the liberality or strictness of the collection policy of the store. The time is shorter in installment than in charge account follow-up since it is important to endeavor to prevent delinquent installment payments from accumulating. In installment collection procedure this notice requesting response, as well as a succeeding notice (discussed in the following step), should be sent out before the next installment payment becomes due.

Efficient merchants in the food business, and other lines selling goods or services which are immediately consumed, take the step of requesting response within a few days after the first reminder has been sent. In the department, specialty store and similar lines, stores with strict collection policies take this step within ten days or two weeks after sending the first reminder.

4. *Insisting on payment.*—Those customers who have not responded to the foregoing follow-up require a fourth step applying still different treatment. The customer has been notified by the mailing of an itemized statement; she has been reminded of her failure to pay as agreed; and she has been reminded again with a request for some kind of a response.

Tone.—Thus, as the manager of credit sales prepares to take the fourth step in collection follow-up, his growing conviction that these customers are unreasonable, unwilling, and probably not intending to pay, is generally justified.

It is true that many honest consumers who really intend to pay their bills are peculiar in that they do not respond

promptly and frankly to duns from a creditor by explaining just what their difficulty is and stating how they would like to take care of their obligations. Nevertheless, they are acting precisely as one would act who intended not to pay at all, and the only reasonable attitude for the manager of credit sales to assume in undertaking this fourth step of collection follow-up is that the customers who necessitate it are unreasonable and unwilling debtors who do not intend to meet their obligations.

Methods.—In each of the foregoing steps only one effort is usually made: one itemized statement, one simple reminder, one reminder requesting response. But in this fourth step of insisting on payment a number of efforts, increasing in severity, are made.

The first effort usually employs methods similar to those used in the previous steps: notices, telephone calls, or letters.

Content.—The content of this message in the case of strict installment selling of durable goods is similar to the notice used in the preceding stage, but goes one degree further in threatening to repossess the merchandise. In the case of strict charge business, the notice goes one step further than the preceding request for response in threatening to: turn the matter over to the firm's collection department, send the firm's outside collector to make a personal call, or report the delinquency to the credit bureau.

It is beginning with this step in charge account collections that accounts are treated individually. By this time all delinquent customers' credit privileges will be temporarily suspended by firms following a strict collection policy. But while the content of the first message to Class C customers may be as stated in the preceding paragraph, appeals to sympathy and to fairness will be made in collection letters to Class A and Class B customers before appeals are made to pride, self-interest and fear by letters stating that the matter is to be turned over to the collection department or the outside collector, or is to be reported to the credit bureau.

Timing.—The time allowed to elapse between the request for response and the first message insisting on payment varies. In strict installment selling, the customer should be reached before the date of the next payment arrives, so that a customer who has missed an installment payment will receive three notices before his next payment falls due: a reminder, a request for response, and a threat to repossess the merchandise.

In strict charge business the delinquent customer will also receive a reminder, a request for response, and a third notice within 30 days after the account has become past due. This third notice, however, will differ in its content, as we have seen, depending upon whether it is sent to a Class C or to a Class A or B customer.

Further efforts.—After this first effort in the stage of insisting on payment, various methods are used and few or many attempts may be made (depending upon the class of customer) before taking the fifth step of final action.

Methods commonly employed are: collection letters utilizing appeals to fairness, pride, self-interest and fear, collection stunts, telephone calls, telegrams, registered letters, personal calls, a series of collection letters apparently coming from a collection agency or an attorney but actually sent out by the store or by its legal department, a series of collection letters actually sent by a collection agency or attorney.

The time elapsing between the various efforts taken must naturally depend upon the customer. It is here in this stage of insisting on payment and in the stage of taking final action, to be examined below, that accounts are to be "treated individually," whereas each and every account on the books should be treated in routine fashion throughout the first three steps of collection follow-up: all being sent itemized statements, first reminders, and requests for response according to the same time schedule, and all being temporarily suspended from further credit after the same definite maximum period of delinquency.

5. *Final action.*—In analyzing the customers who have failed to pay or make satisfactory arrangement after the preceding four steps in collection follow-up have been taken, the manager of credit sales finds that they fall into the two main classes.

Those who are able to pay but must be forced to do so.—Some of these are skips, and are traced if the expense is justified. Suit is instituted in the case of those who are conclusively found to be able but unwilling to pay, if the amount merits the expense.

In the case of durable goods installment selling, suit may be instituted instead of repossession if the manager of credit sales is of the opinion that the account will be collectible under judgment; otherwise repossession is made.

Those who are willing but who cannot pay in full, or who cannot pay within a reasonable time.—Those who apparently will be able to pay in full but will need an unduly long time (during which many things may happen to reverse the situation) may be induced by the manager of credit sales to borrow and pay up their delinquent balances immediately in full.

Those who are so deeply involved that they apparently will not be able to pay in full, even over a long time, may be induced to pool their obligations to various retailers under the pooling plans operated by many retail credit bureaus and social agencies. This problem of rehabilitating delinquent customers is treated more fully in the final chapter of this text. In the case of the installment customer who has purchased durable goods and who cannot pay in full or would take an unduly long time to do so, the store usually takes final action by repossessing the merchandise.

QUESTIONS

1. Differentiate between collection policy, collection system, collection procedure and collection methods.

2. In establishing a collection policy, what are the main principles to be taken into consideration?

3. "Advantages to the store owner, the customer, and the manager of credit sales, respectively, flow from the principle of building collection policy around the central idea of promptness." Explain.

4. What is meant by "nominal terms"? By "actual terms"?

5. Give the requisites of a good collection system.

6. What are the principal types of collection systems, and just how do they differ? Which do you consider best for the small store? The large store? For charge accounts? For installment accounts?

7. What problems should be determined in adopting a plan of collection procedure?

8. Name the five principal steps in collection procedure. Do these apply to deferred payment as well as to charge account follow-up?

9. Indicate how the tone differs in the various steps, and why.

10. For each of the steps, describe the content of the messages used.

CHAPTER XIII

COLLECTION TOOLS AND METHODS

(*From Statements to Telegrams*)

Having discussed the various stages through which collection procedure moves, giving brief mention of tools and methods, let us now devote closer attention to these collection tools and the methods of using them.

1. Statements

Mention has already been made of the necessity of sending statements promptly, but there are additional factors worthy of consideration. It is generally felt that having the printed statements bear a phrase setting forth the terms of the store (for example "Due first of the month following purchase—Past due after the 10th") and some such phrase as "Member of the ------------ Credit Men's Association" (or Credit Bureau) as well as the insignia of the National Retail Credit Association, has some psychological effect in educating the customer to pay promptly. Also, information regarding the time of closing the books is generally printed on statements used in charge account selling so as to prevent misunderstandings.

The paper used and the general make-up of the statement should be chosen with a view to dignity and advertising value. And in the preparation of the customer's statement, it is obvious that errors will tend to slow up collections. Itemizing is important so that the customer may be able to recall the purchases made at each particular store, thereby preventing possible misunderstandings and delay in payment. The date, kind of merchandise and price should be shown for each purchase made, and details for each payment or other credit should be stated. These objectives are achieved by the itemized or long statement generally used in retail trade. They may be secured also in using short form or simplified statements when the

posting media are enclosed with the statements (e.g., in simplified cycle billing).

Some feel that the first statement to a *new* charge customer should not be sent out with the regular statements, but should be accompanied by a short, friendly note like: "Sending you our first statement gives us an opportunity to express our appreciation of your patronage. In accordance with our terms, this is payable not later than the tenth. No need to make a special trip to the store. Just put your check in the enclosed envelope and drop it in the mail. Thank you!"*

The use of post cards for the sending of statements is rare except in the case of some public utility companies, while the use of window envelopes has shown a steady growth.

2. Duplicate and Short Form Statements

Either duplicate statements or short form statements (showing only the balance and not the items) with or without an accompanying message, are frequently used to perform the function of a first reminder to charge customers who have failed to respond to the itemized statement.

The psychological effect of *writing* or *typewriting* "Please," "Overlooked?" "This has probably escaped your attention," or any other message on a statement is frequently bad since some customers will infer that they have been singled out by the collection department of the store. For this reason many firms either do not accompany the duplicate statement or the short form statement with any message, or they try to put the message in such a form as to make the recipient feel that all other customers are receiving the same treatment under the same conditions. Some of these impersonal methods are: multigraphing or mimeographing the message on the duplicate statement, having the short form statements made up with the mes-

*Daniel J. Hannefin, The *Credit World,* National Retail Credit Association, April, 1935, p. 12.

sage already printed on them, using a rubber stamp or a sticker, or enclosing a printed, multigraphed, or mimeographed notice.

In regard to these methods, managers of credit sales in some of the larger stores oppose the rubber stamp or the sticker and favor the other methods mentioned. They hold that if anything detracts from the collection statement it is the fact that the rubber stamp may be applied in such a way as to smear, or the sticker may be affixed in an untidy fashion. Since the rubber stamp or the sticker must be on something and since a statement must be furnished, the argument is pressed that it is just as easy to print, multigraph, or mimeograph a message on the statement. However, many stores, especially the smaller ones, find the rubber stamp or sticker methods advantageous and feel that they are able to do an attractive and effective job with them.

It is clear that great care must be exercised in phrasing any message used in conjunction with a duplicate statement or short form statement sent as a first reminder. But if a message is used, whenever possible it should include a restatement of the store's terms. This helps to carry out one of the fundamentals in a sound collection policy: educating the customer to pay promptly.

Some firms enclose a return envelope on which no postage is required when sending out the duplicate or short form statement in collection follow-up.* In installment collections, printed notices or form letters rather than duplicate or short form statements are used in reminding the customer who has failed to pay on the due date.

3. Notices

In installment collections apparently the typical procedure is to send a series of three printed notices to the customer who has missed a payment before resorting to

*Special forms like the Remington-Rand "Colvelope," which is a single unit consisting of an outgoing envelope, a collection notice, and a return envelope, may make possible a considerable saving in postage for firms large enough to send out 200 or more collection notices at a time.

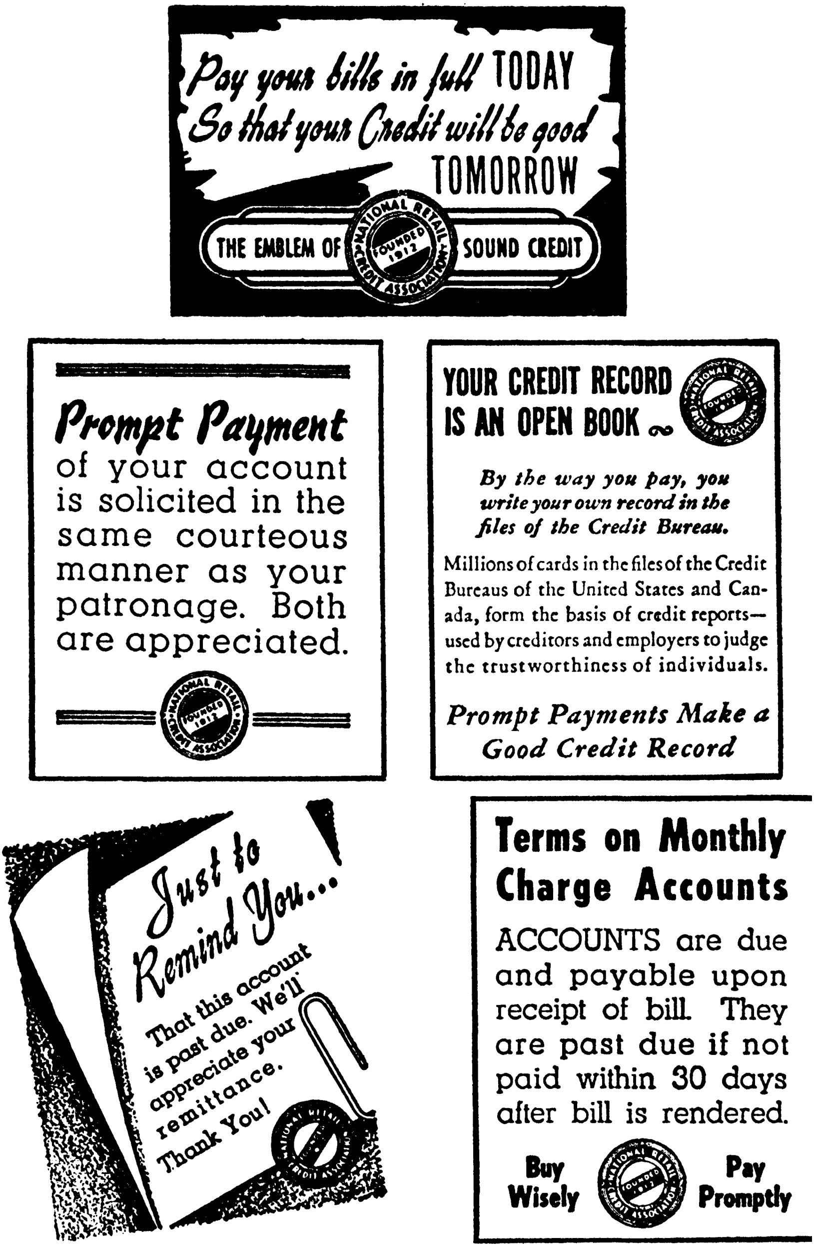


FIG. 11. COLLECTION STICKERS FURNISHED BY THE NATIONAL RETAIL CREDIT ASSOCIATION TO ITS MEMBERS

collection letters. Some exceptions are found especially in the case of mail order houses and others who start using collection letters immediately because they wish not merely to remind the customer, but to present a thorough sales talk to keep her sold on the merchandise.

Advantages.—Also in regular charge account collection follow-up the use of notices rather than collection letters in the early stages seems to be becoming more widespread. Notices are less expensive than collection letters; they are adequate in size to carry all of the information found in the usual short form letter used in the early stages; and the printed notice undoubtedly impresses the delinquent as a more impersonal reminder (and therefore less offensive) than a letter even though it be obviously a form letter.

Often, therefore, a series of about three notices is sent to the charge customer who has failed to pay the monthly statement when rendered before the manager of credit sales begins to use regular collection letters. The notices used by the leading retail stores are generally about three inches by five inches in size but vary as to color and content, and may be in the form of printed cards or slips of paper. One of the best series of notices for charge account collection follow-up was developed by H. G. Godfrey, Credit Manager of the J. L. Hudson Company in Detroit, and has been widely copied. The following is a description of the notices and the uniform method followed in sending them out.

Notices are not sent to customers on balances under $5.00 or to those who have paid one-third or more of their previous balance during the current month. Neither are they sent to any customer who has called or written, making acceptable, special arrangements regarding payment of her bill.

Reminder notice.—The "A" notice, which is a printed slip of white paper about three by five inches in size, is sent to all remaining customers who pay nothing on their bills during the month. This reads as follows:

For many years, when opening charge accounts and rendering bills, we have stipulated that payment should be made in full, early each month, for purchases of the preceding month.

The enclosed bill, showing an unpaid balance from the preceding month, may have escaped your usual prompt attention. For this reason we are calling it to your notice.

If we are in error in any way, we shall be glad to have you let us know.

THE J. L. HUDSON COMPANY

Part-pay notice.—The "B" notice, which is on yellow paper, is sent to all remaining customers who pay less than one-third of their balances during the month:

We thank you for the payment received covering a portion of your account, as shown by statement enclosed and wish to inquire if there is any error or complaint regarding the unpaid balance. If so, we shall cheerfully make any necessary correction or adjustment.

You will doubtless remember that accounts are payable in full early in the month following purchase.

THE J. L. HUDSON COMPANY

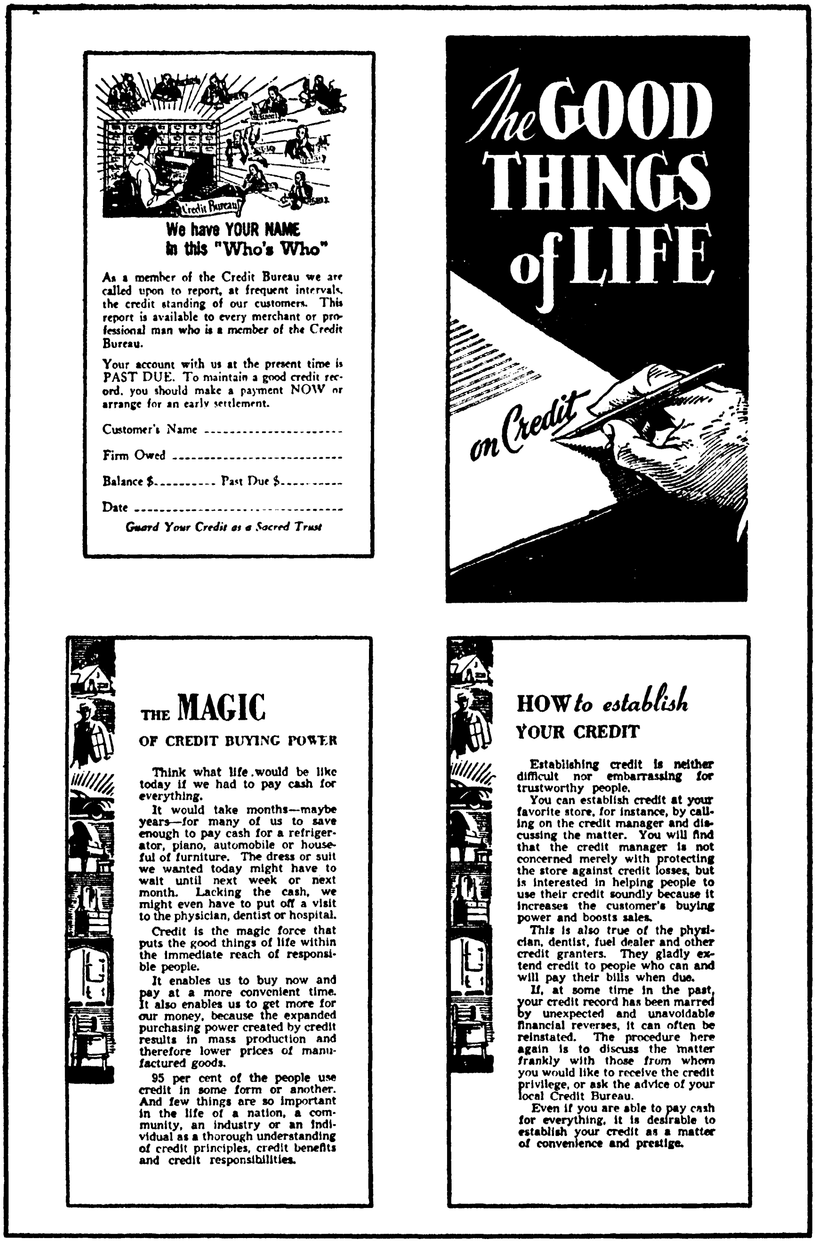
Second part-pay notice.—The "C" notice, which is on pink paper, is sent to all remaining customers where payment of less than one-third of their previous balance persists during the second month:

We know that you have not overlooked your Hudson account, because of a recent payment you have made. For many years, however, we have specified when opening accounts and rendering bills, that payment in full should be made each month for purchases of the preceding month.

We shall appreciate your cooperation by payment of future bills in this manner.

If we are at fault in any way, we shall be glad if you will advise us.

THE J. L. HUDSON COMPANY



We have YOUR NAME
in this "Who's Who"

As a member of the Credit Bureau we are called upon to report, at frequent intervals, the credit standing of our customers. This report is available to every merchant or professional man who is a member of the Credit Bureau.

Your account with us at the present time is PAST DUE. To maintain a good credit record, you should make a payment NOW or arrange for an early settlement.

Customer's Name ____________________

Firm Owed ____________________

Balance $________ Past Due $________

Date ____________________

Guard Your Credit as a Sacred Trust

The GOOD THINGS of LIFE on Credit

THE MAGIC
OF CREDIT BUYING POWER

Think what life would be like today if we had to pay cash for everything.

It would take months—maybe years—for many of us to save enough to pay cash for a refrigerator, piano, automobile or houseful of furniture. The dress or suit we wanted today might have to wait until next week or next month. Lacking the cash, we might even have to put off a visit to the physician, dentist or hospital.

Credit is the magic force that puts the good things of life within the immediate reach of responsible people.

It enables us to buy now and pay at a more convenient time. It also enables us to get more for our money, because the expanded purchasing power created by credit results in mass production and therefore lower prices of manufactured goods.

95 per cent of the people use credit in some form or another. And few things are so important in the life of a nation, a community, an industry or an individual as a thorough understanding of credit principles, credit benefits and credit responsibilities.

HOW *to establish*
YOUR CREDIT

Establishing credit is neither difficult nor embarrassing for trustworthy people.

You can establish credit at your favorite store, for instance, by calling on the credit manager and discussing the matter. You will find that the credit manager is not concerned merely with protecting the store against credit losses, but is interested in helping people to use their credit soundly because it increases the customer's buying power and boosts sales.

This is also true of the physician, dentist, fuel dealer and other credit granters. They gladly extend credit to people who can and will pay their bills when due.

If, at some time in the past, your credit record has been marred by unexpected and unavoidable financial reverses, it can often be reinstated. The procedure here again is to discuss the matter frankly with those from whom you would like to receive the credit privilege, or ask the advice of your local Credit Bureau.

Even if you are able to pay cash for everything, it is desirable to establish your credit as a matter of convenience and prestige.

FIG. 12. "PAY PROMPTLY" INSERT (UPPER LEFT), AND FRONT COVER AND TWO PAGES OF BOOKLET, "THE GOOD THINGS OF LIFE—ON CREDIT," FURNISHED BY THE NATIONAL RETAIL CREDIT ASSOCIATION TO MEMBERS

Suspension notice.—The "D" notice, which is on green paper, is sent to all remaining customers who pay nothing for two consecutive months. This notice is also sent to customers where payment of less than one-third of the previous balances persists into the third month or where any account, which has previously received a white or pink notice, becomes more than ninety days old.

It notifies these slow-pay customers that their accounts have been suspended until brought to terms:

> We believe we have previously called your attention to the overdue balance on the enclosed bill and we would greatly appreciate your usual prompt attention.
>
> For many years when opening accounts and rendering bills, we have specified that payment should be made early each month for purchases of the preceding month. If anything has occurred out of harmony with this understanding, we shall be glad if you will advise us.
>
> We shall understand that additional purchases will not be added to your account until the overdue portion has been paid.
>
> THE J. L. HUDSON COMPANY

4. *Enclosures*

It is generally not advisable to enclose advertisements in collection letters, but leaflets or other enclosures stressing the value of prompt payment for maintaining a good credit standing often may be employed with profit. Prompt-pay educational enclosures such as those illustrated on page 260 are obtainable through local credit associations.

5. *Collection Letters*

In the larger retail stores a great deal of attention must be given to the problem of constructing successful collection letters. Many different kinds of *form letters* are printed, multigraphed or mimeographed so that as many situations as possible can be handled in a routine manner and thereby reduce the expense and increase efficiency.

Also a great number of *form paragraphs** are evolved so that in writing personal letters in those special cases where form letters cannot be used, appropriate paragraphs may be chosen and personal letters thereby written more quickly. Finally, *model form letters* may be prepared for the letter writer to rephrase to fit the particular customer as he dictates.

The series of collection letters sent to a delinquent should gradually increase in insistence. In other words, it would be a mistake to send a few courteous letters followed by a harsh or threatening message and then to return to a friendly letter. Threats should not be made until the point is reached where the manager of credit sales actually intends to carry them out.

A good series of collection letters is one which endeavors to employ psychology and attempts to "sell" the delinquent upon paying rather than to command him to pay. The sales appeals used in collection correspondence differ as to strength. They may be classified as appeals to sympathy, fairness or justice, pride or honor, self-interest, and fear.

Appeal to sympathy.—The appeal to sympathy is rarely used except in the case of some small stores. The tenor of the letter may run to the effect that the merchant is rather hard up, or pressed for cash, or has bills to meet and would appreciate it if the debtor would let him have a little on account.

Appeal to fairness.—This should not be confused with the appeal to sympathy. The latter is weak, consisting simply in requesting the debtor to do the creditor a favor. The former stresses the fact that a credit transaction represents a mutual obligation, that the store has done its part, and the debtor should now reciprocate. The appeal to fairness is used in the following example, as will be noted in the second and fourth paragraphs of the letter.

*Many examples are given in David Morantz, *Proven Plans to Speed Collections and Timely Tips to Trim Office Overhead*, Kansas City, 1933.

APPEAL TO FAIRNESS

We value your patronage and are anxious to extend to you every possible courtesy consistent with good business principles.

However, when you allow your account to remain unpaid to the point where it is unprofitable to us, then we feel that we are not being unreasonable when we insist that you immediately liquidate your past due balance.

You are owing us at this time a balance of $ for the months of . Our credit terms require full settlement of our bills by the tenth of the month succeeding date of purchase.

When our customers pay their bills according to these terms that business is profitable to us; surely you will agree with us that we are entitled to a profit on our sales?

We know that you do, and now while this matter is in your mind won't you let us have your remittance to pay your past due account?

Thank you!

Yours very truly,

Appeal to pride.—In employing the appeal to pride in collection letters, the approach is from the angle of "good customers like you," or that payment has not been received in accordance with "your usual promptness," and so on. Below is presented an example of a short collection letter appealing to pride.

APPEAL TO PRIDE

Good customers like you, we have found, are always agreeably responsive when we ask their cooperation in maintaining our regular terms of monthly settlement.

According to these terms your account $ is long past due. If you'll mail us your check now for this amount we shall be very appreciative.

Sincerely,

A better example of the appeal to pride is found in the following letter by Leonard Berry, Credit Manager of the B. Forman Company in Rochester, New York. The self-esteem of many people would be damaged by the call of a collector who, the letter states, is going to call unless the customer makes some response. Consequently they will be urged to action by the threat to send a collector unless they respond.

Appeal to Pride

When it becomes necessary in our collection procedure to send our outside representative to call on a customer, we feel that it is only fair to that customer to give notification of our intention to do so.

Your present account, the balance of which is $ represents purchases quite past due. Our representative has been instructed to call at your home within the next week or ten days, with the purpose of collecting this account, or in any event arriving at an understanding with you.

Probably, you would prefer to send your check to us at this time, thus making his call unnecessary. We shall be grateful if you will. However, may we suggest that if for any reason you cannot take care of the entire account now, you call at our credit office, so that we may be afforded an opportunity of discussing the matter with you personally. We are most anxious to cooperate with you fully and helpfully.

Very truly yours,

Appeal to self-interest.—The appeal to self-interest is not the same as the appeal to pride. The latter attempts to sell the debtor upon paying as a means of preserving his self-esteem, while the sales idea in the former is that if he does not pay, he will lose certain privileges. For example, he is informed that his account will be restricted or that he will be reported to the local credit bureau which may mean difficulty in securing accommodations from other merchants. An example of this type of letter follows.

Appeal to Self-Interest

In maintaining our affiliations with the Merchants Credit Bureau, we are desirous of reporting all of our patrons in good credit standing.

Under the established rules, we are obliged to report all overdue accounts, and as your account is now past due for payment, we are advising you at this time before sending any information to the Bureau which might possibly affect your future credit rating.

This report will be withheld for the next five days, awaiting settlement or satisfactory arrangements for the disposition of your account.

Anticipating your urgent attention, we are

Yours very truly,

Appeal to fear.—The appeal to fear is stronger than the appeal to self-interest because it makes clear to the debtor not merely that he is going to lose some privileges but that something is going to happen to him which may cost him money and damage his reputation. An example of a letter using this appeal is shown below.

Appeal to Fear

We cannot understand why the prompt settlement of your account does not give you greater concern.

Legal procedure entails additional expense and embarrassment to the debtor—but we feel that we have been most courteous and lenient in the handling of this matter, and we are not in a position to wait longer for payment.

Your account will be placed with our Attorney on ------------------ unless we receive your check before that date.

Very truly yours,

Special letters.—In addition to routine collection letter follow-up, which begins with regular form letters (and often necessitates the writing of personal letters so as to

treat accounts individually) many managers of credit sales use from time to time humorous letters, stunt letters, special occasion letters (for example, a special collection letter sent out at the time of the payment of a bonus of some kind), seasonal letters (for example, collection letters bearing a Christmas or a New Year's theme), auditor's letters, and so forth.

Using a registered letter requiring a return receipt is also frequently employed in the latter stages of follow-up. Special delivery letters may reach the delinquent late at night, thereby causing resentment unless special care is taken to determine when the letters should be put in the mail so that they will arrive before an untimely hour. In sending "last chance" collection letters, there may be enclosed a return envelope which requires no postage and also some kind of a card or form to make it easy for the delinquent to respond with reasons or promises if not with payment, as in the following example.

Making It Easy to Respond

As just another service an envelope requiring no stamp is enclosed in which a check can be mailed in payment of your account amounting to $ representing merchandise purchased .

Should it be impossible to answer at this time by bank check, advise us below by a pencil check (✓) or two. Use the enclosed envelope. Thank you.

Very truly yours,

We mailed you a check yesterday ( )
Will surely mail a
check ______________ ( )
DATE
Here is a part of it to show our
good intentions -------------- ( )
We inclose payment in full ----- ( )
Our reasons for non-payment are
on the back of this letter ----- ( )

There should be going on a constant revising of form letters so that customers do not become familiar with them. The progressive manager of credit sales is constantly trying out new collection letters and methods and should keep a record of their results so as to gradually build up the most effective system possible for his store.

Post cards.—Some managers of credit sales make use of post cards in connection with the collection letter follow-up. For while post cards carrying language which is defamatory or threatening in nature are unmailable, the card may properly request the customer to reply to a collection letter which has been previously sent. Sometimes such post cards or collection letters are sent to the delinquent in care of his employer for the psychological effect. This procedure is used, of course, only in the last stages of collection follow-up when the delinquent has refused to respond and cannot fairly resent such pressure being brought to bear.

Correspondence.—Generally, in small stores collection correspondence is filed in the credit folder while in large stores it is placed in a regular alphabetical correspondence file cabinet, notations of letters sent and promises or other replies received being made on the collection record of the account.

6. The Telephone

The use of the telephone makes it possible, with those who can be reached, to ascertain the reason for non-payment and to meet the various arguments and defenses which the customers have built up to justify their silence and failure to pay.

Effort is made in the telephone conversation to arrive at a decision upon a definite amount of payment and a specific date upon which it will be made, and this understanding is usually confirmed immediately by letter. The personality of the one who endeavors to use the telephone for collection follow-up is naturally very important, and the time to make telephone calls must be carefully chosen since the

best hours for calling would depend upon whether the customer is a housewife or an employed woman or man, and upon customs and habits in the particular section of the country. Some customers respond better to telephone follow-up than to collection letters, and record may be made of this so that the appropriate methods may be used in future collection activity on the accounts.

The criticism often made of the telephone as a collection instrument to the effect that no money can be paid over it does not seem to be so very well taken, because this disadvantage is associated with all of the other methods of collection except the personal call. And in the case of the larger retail stores, especially in charge account collection, the objective of the stores' outside representatives who make personal calls seems to be more and more to ascertain the reason for nonpayment and to get the customer to come to the credit sales department, rather than to collect any money.

Not all delinquents can be reached by telephone, of course, and if the debtor has a telephone but is not in, she may refuse to heed any message left requesting her to call the store, the credit sales department, or the number given. In the latter case, the matter is often handled by leaving a message for the customer to call a specific person (Ruth, Miss Gray, Mr. Jennings, etc.) at the telephone number specified.

Advantages.—The telephone as a collection instrument has the following advantages: it is generally speedier than other methods; it gets a definite answer either in the form of a promise to pay or the reason for non-payment; the expense per call is probably less than the total expense per personally written collection letter; it makes it possible to vary the collection appeals to cope with the situation revealed by the debtor's conversation (which cannot be done in a single collection effort made by any other method except the personal call); it allows a "face to face" discus-

sion excelled only by the personal call; it puts the collector on a basis of equality with the customer, whereas the outside representative making a personal call often feels at a psychological disadvantage; it permits extremely strong appeals, even the making of threats if such are felt necessary or desirable, since successful prosecution for statements made over the telephone is hampered by the difficulties experienced in trying to prove exactly what was said and precisely who made the statement.

7. The Telegram

While the telephone is used at various stages in collection follow-up by different retailers (even the first reminder is made by telephone in the case of some retail food stores), the telegram is not usually employed in retail collections until accounts have become considerably past due.

Advantages.—For collecting past due accounts from chronically slow customers, the telegram is generally regarded as particularly effective. Because of the very fact that its use in retail trade is still rather uncommon, the telegram may prove especially valuable to the store employing it. Delinquents heed the telegram, according to Western Union, because it commands attention, it is short and to the point, wasting no words and getting right at the facts and, like the fire alarm and the taxi horn, it gives the receiver a mental jolt, urging action.

The reasons why the telegram is an efficient collector of overdue accounts may be summarized in the following statement: it saves time and money because it brings quicker results; it goes direct to the person to whom it is addressed; it is given his personal and preferred attention; it impresses upon him the importance of the message; it stresses the imperative need for payment; it urges immediate action; it is inexpensive—collections by telegram frequently cost less than one per cent of the amount due.

Western Union cooperates with the manager of credit sales in obtaining answers to collection telegrams, and

has developed many suggested collection messages which have been tested by actual use. Thus, a credit man does not need to worry over the problem of composing an appropriate telegram and giving attention to the legal aspects of phraseology,* but may select a message and give it together with a list of names and addresses to the telegraph company which takes care of the rest of the work. The manager of credit sales should specify that the telegrams are to be delivered, not telephoned by the company.

Effectiveness.—According to the telegraph company claims, the collection efficiency of the telegram runs from 50 to 95 per cent, the cost ranges from a fraction of one per cent to three per cent, and it is profitable to send at least three telegrams before placing an account for collection. Many who do not respond to the first telegram pay when the second arrives, and a substantial number of accounts which otherwise would be placed in the hands of lawyers pay upon receipt of the third telegram. The telegraph company's procedure in collecting its own accounts does not make use of the telegram as a regular collection tool.

The manager of credit sales may use on stubborn or "hopeless" accounts what is called "serial service" which means that three telegrams are sent to the customer in one day, the minimum charge for the three telegrams being one-fifth more than the cost of a 50-word Day Letter.

Sometimes what is known as a blind telegram is used in collection procedure. The credit executive writes a collection letter stating just what he wants to say to the customer, and then precedes the delivery of the letter with a

*Since the collection telegram is always physically delivered in a sealed envelope, it is held to be always well within the pale of any legal entanglements, just so that libelous language is not used. Threats to sue may be made in a telegram but not threats of criminal prosecution or bankruptcy. It is to be noted that there is usually no necessity for composing a telegram in such a way as to read harshly or threaten, because the telegram itself has attention-compelling power due to the fact that we have always associated the feeling of emergency with the telegram. The telegram should not give offense unless the mistake is made of sending it "collect."

telegram somewhat as follows: "You will receive tomorrow a very important letter. I would like to hear from you immediately." The purpose here is to secure preferred attention for the collection letter.

Another advantage of the telegram is in securing the address of "skip" accounts. In this connection, the best time for sending the telegram seems to be between five and eight p.m. If the customer has moved, neighbors, friends or relatives willingly tell a uniformed telegraph messenger the new address of the "skip" if it is known, because a telegram is generally regarded as an important matter. If the customer has skipped and the new address cannot be learned, the telegram is returned with that information. In such a case, a registered letter requiring return receipt, which costs the same as a local telegram, would do the same job but not as quickly.

QUESTIONS

1. To serve as a good collection tool, how should statements be constructed?

2. Of what value is putting a reminder or message of some kind on the duplicate or short form statement?

3. In case reminder messages are to be placed on statements, which would you prefer: collection stickers, rubber stamp, or handwriting? Why? Any other method?

4. Are notices more advantageous than form letters in early collection follow-up on charge and deferred payment accounts? In what case may letters be preferable?

5. "It is generally not advisable to enclose advertisements in collection letters." Why? What kinds of enclosures may be used?

6. If a firm has a good set of form letters, what use can be found for a set of form paragraphs and set of model form letters?

7. Give examples of the five main appeals which may be used in collection letters.

8. To what extent may post cards be used in collection follow-up?

9. What are some of the advantages of using the telephone in collections?

10. What are the advantages of the telegram in collecting? What is your opinion as to why it is so little used in retail collections?

CHAPTER XIV

COLLECTION TOOLS AND METHODS

(*Collectors and Outside Agencies*)

Our study in the preceding chapter has brought us through an examination of the tools and methods used in the various steps of collection procedure up to the last stage of final action where more stringent measures are employed.

8. *The Personal Call*

In deciding to follow up by personal call a delinquent who has resisted previous collection efforts, supplementary credit bureau reports are often obtained as the store endeavors to post itself as well as possible upon the debtor's financial condition and ability to pay.

Differences in practice.—The use of outside representatives differs among various stores. In some cases, the practice is to use them mainly for actual collections, while in others the policy is to employ them to educate the delinquents to call at the credit sales department or to bring or send their payments to the store.

In the case of certain types of accounts, especially in certain sections of the country, it seems to be customary and necessary to use an outside collector for each payment. Each collector has a beat or section of the city in which the customers await his call to collect their payments, or collectors are sent to call and collect as soon as the payment has become past due. However, most retail stores do not send their personal collectors until the customer has failed to respond to several reminders or requests. In many stores the name of hostess, investigator, adjuster, or representative is used instead of the designation collector. The customer is urged to call at the store, where collections and arrangements are made, rather than having the collector exercise the function of making arrangements or collecting money.

In a number of western cities local credit bureaus furnish what is known as personal call service to their member stores. Merchants not having their own outside representatives or collectors may refer accounts to the bureau which sends its representative to make a personal call on the delinquent and deliver a report or any money collected to the merchant.

Out-of-town calls.—In the case of out-of-town customers the merchant may feel that in some cases a personal call would be effective but too expensive. However, a special service in this connection is offered by the Railway Express Agency which has agents in all the cities and principal towns of the country.

At a charge of only 75 cents, the agent will call on the customer living within his regular delivery route, collect the money, arrange for payment, or report why the delinquent is unable or unwilling to pay and other information of value in collecting. The agent mails a card requesting the delinquent to call at the express office in case the latter does not reside within the regular delivery route.

Use may be made of the agents in installment collections to either collect the delinquent payments or repossess the merchandise, the charge for the repossession service being the regular express rate from the pick-up point to the store, and the 75 cent charge is credited in this case. The commissions charged when money is collected are very small, starting at 75 cents for collections up to $100 and rising to $6.67 for five thousand dollars. When unpaid collections are returned with a report, a service charge of 75 cents is made.

Characteristics of good collectors.—Good personal collectors are not easy to find. Firmness and persistence are necessary characteristics, but certainly equally important are tactfulness and diplomacy. The collector must be a salesman, a student of human nature, and manifest not a threatening or hard-boiled attitude but the cooperative attitude of one who has come to help the delinquent in the solution of his problem.

The personal collector may show helpfulness in his very attitude and often by making specific suggestions. He may show the delinquent how he can raise the money by borrowing if necessary. Cases are known where the collector helped the debtor to get a job so as to pay his bill. Misunderstandings may come to light in the conversation which may be cleared up by the collector. He should be polite and courteous at all times and of neat appearance and pleasing personality because he represents the store. His fundamental objective should be to get either the cash or a definite promise (to pay or to call at the credit office) and to keep the customer. Future sales possibilities must always be kept in mind.

The collector must not be averse to working sometimes at hours which would be unusual for an office employee, because some delinquents can be contacted only during hours before the store opens in the morning or after it closes at night. The good collector who has a specified area to cover soon comes to know his territory and make many friends and acquaintances who help him with information. He must be a shrewd judge of human nature in order to be able to differentiate between the truth and the fiction in the delinquent's story. It is often difficult to secure people possessing the desired characteristics for the remuneration which a store feels it can offer, but from the viewpoint of the good will of the store it is probably better to do without this collection method than to employ poor collectors.

Advantages.—The great advantage of the personal call is that the store owner, the manager of credit sales, or the collector has the opportunity to secure a face-to-face discussion with the delinquent, meet his arguments and defenses, and arrive at some definite result: either a promise, which may be followed up, or actual payment. The personal call is probably the most effective method in collecting, but it tends to be an expensive method especially when used in the case of small accounts, customers who are situated at a considerable distance from the store, and those

who are difficult to find at home. Thus, where the advantages of a personal talk with the customer are desired, the tendency is to use the telephone whenever possible.

The personal collector is valuable in a number of ways: in collecting from those types of delinquents who can be made to pay only through personal contact, in securing definite promises of payment, in persuading the delinquent to call at the credit office, in securing information not obtainable in other ways, and in tracing "skips." Just as in contacting delinquents over the telephone, attempt should be made to get the delinquent to talk first so that the true situation may be revealed and the collection message adapted to it.

Training.—Just as it is necessary for any store to give its salesmen some training so that they may be familiar with the stock, the policies and the methods of the company, and be stimulated to employ better selling technique, so it is necessary to give the firm's outside collectors at least some training. While salesmen may pick up a great deal of knowledge from observation of fellow employees, the collector practically always works alone. Furthermore, the average would-be collector is probably not of as high a type as the average salesman, and may not have a "sales personality." Yet collecting is fundamentally a selling job—selling the delinquent on the value of prompt payment, keeping his word, maintaining a good name and protecting his standing for future credit. If training is necessary for salesmen, it would seem to be even more necessary for outside collectors.

While the store owner or manager of credit sales cannot take the time to tell outside collectors how to handle every account or specific difficulty, he may teach what seems to be the best technique for handling the fundamental and usual problems—the common excuses, the procedure in case of unemployment, deaths, "skips," refusals to come to the door, and so forth. Training the collectors to handle the usual problems effectively leaves the store owner or manager of credit sales free to help in solving the more

difficult cases. Demonstrations may be given in training courses by having one person take the part of the delinquent and another person illustrate the technique of handling various excuses, reasons or promises given by the former.

In the case of medium-size stores, the manager of credit sales may make personal calls upon accounts which justify it, and in small stores the owners make personal calls after closing shop if necessary. But their time is valuable, and in the case of stores which are too small to employ a full time collector, one or more of the sales or service employees may be trained to handle ordinary personal calls so that the time of the owner or manager of credit sales may be necessitated only in extraordinary cases.

Supervision.—System is needed in using outside collectors effectively. Some credit executives in the department store and other retail lines feel that under average conditions the outside collector should make at least 50 calls per working day, contacting the delinquent in about 50 per cent of the calls, and collect something at least on approximately 25 per cent of his contacts. In case the collections made by the personal collector seem to be rather slow, it may be difficult to decide whether this is simply due to tactful handling of a difficult task or to his endeavoring to "make a job for himself."

Collection cards, indicating the previous handling of the account, and containing any special memoranda, are made out for the collectors. A daily record may be kept showing for each collector the number of calls, the number of actual contacts with customers, the number of accounts upon which something was collected, the amount collected on each account, and the total collected. Also each collector should make a report daily on each case handled, and where a definite promise or understanding has been made, the store should immediately verify by a letter to the delinquent.

9. Collection Agencies and Attorneys

As a result of using such collection tools as we have been describing, the overwhelming majority of delinquent accounts are collected. It will be noted that the methods connected with the use of these instruments have been friendly,* even though sharply insistent and urgent in advanced stages, and that matters have been handled directly between the store and the delinquents. But a few delinquent customers will not yield, and sooner or later the manager of credit sales must turn to the use of tools like collection agencies and attorneys, which means the introduction of a third party and the shifting of dealings to a less friendly basis.

The advantage of using collection agencies and attorneys is fundamentally a psychological one, because they have no secret or exclusive collection technique not open to use by the manager of credit sales. However, the debtor is usually given a jolt and stirred to action because he realizes that collection efforts are no longer in the hands of the store (which he probably felt was afraid to press very hard for fear of losing his business and good will) but in the hands of third parties who are only concerned with collecting the money (instead of "collecting the money and keeping the customer"), and furthermore fear is inspired on the part of most debtors who do not know what the collection agency or attorney may or can do to them. There are several types of collection agencies and attorneys.

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*Also, we might have mentioned various miscellaneous methods of a friendly nature used here and there. Some firms offer premiums or gifts to induce delinquent customers to pay their bills. For example, a Southern florist advertised in the daily papers a year or so ago: "Six lovely roses if you pay your bill at Joy's by the 31st," and a New York florist sends delinquents statements accompanied by flowers. The old corner grocery sometimes gave the family a bag of fruit, candy or some other gift upon the occasion of the payment of the long past due bill. On the other hand, some small store owners, when a slow account begins to appear dangerous, attempt to trade it out for goods or services of value to them. Eggs, chickens, or other goods may be secured from farmers and services from auto mechanics, building trade workers and doctors.

House agencies and attorneys.—First of all, house collection agencies or house attorneys are used by some of the larger retail establishments. This means that collection letters are sent out on the letterhead of a collection agency which is really owned by the store and run by some of its staff, or on the letterhead of an attorney who is really employed full time in the store as credit or collection manager or in some other position, but the relationship between the store and the collection agency or attorney is not disclosed.

In some cases stores make an arrangement with a local attorney to use stationery bearing his letterhead in consideration of giving the attorney all of their collection business which requires actual legal measures.

The reasons for the employment of house collection agencies or house attorneys are partly to insure considerate and satisfactory handling of debtors but mainly to save on the expenses which would be occasioned by employing an independent collection agency or attorney.* Also the legal departments of the big stores handle other legal matters for their firms. Sometimes a store finally turns over the accounts which fail to respond to its house collection agency or attorney to the local retail credit bureau or other collection agency.

Pseudo collection agencies.—A second device which should be mentioned here might be called pseudo-collection-agency letters. These are form letters printed, and usually put up in convenient pad form, by various companies which sell them to retailers. The letters are sent by the retailer to his delinquent customers but read as if they were sent by a collection agency, and order the customer to make arrangements with the merchant in regard to paying the indebtedness.

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*The average cost of collection through collection agencies and attorneys would be difficult to state because agency rates, attorney fees and court costs vary considerably. According to information received by the Research Division of the National Retail Credit Association from a few leading stores, it would appear that the total cost tends to range from one-fourth of the money collected upwards.

The last letter in the series (usually there are two or three letters increasing in insistence) often contains the threat to turn the matter over to legal representatives, or advises that this action has been taken. Such pseudo-collection-agency letters are often effective and the cost of a pad of these forms is relatively low as compared with the fees of collection agencies and attorneys.

Credit bureaus.—Outside collection agencies differ greatly in efficiency and dependability. Probably best known to retail credit men are the collection facilities of the Associated Credit Bureaus of America, an organization to which more than 1,350 local credit bureaus (about 360 having collection departments) and 739 collection agencies belonged in 1947. Each local credit bureau or collection agency affiliated with the ACB of A is either run by the Chamber of Commerce, or a private company cooperating closely with the local Retail Credit Men's Association, or is owned by the merchants.

Many managers of credit sales prefer to give their collection business to the local credit bureau (or ACB of A collection agency affiliate) because the bureau is interested in assembling and centralizing all collection data for the benefit of its files (and they want the bureau's files to be as complete as possible whenever they ask it for credit information); it has unusually complete information on any accounts which may be referred to it for collection; it is efficient; its charges are reasonable; and its contracts are fairly drawn. The same may be said of local ACB of A collection agency affiliates, which pass their collection data on to the local bureau's files.

The ACB of A bureau or agency may possess an additional advantage as a collection agency in that the debtor realizes that bureau records are consulted by the stores of the community in granting credit and may fear that his credit will suffer if he does not promptly come to terms when the bureau starts action.

Collection agency letters are furnished retailers who send them out as a preliminary step before actually turn-

ing the accounts over to the collection department of the bureau. Besides ACB of A facilities there are many local and some national collection agencies which are reliable and efficient.

Collection agency rackets.—But there are many collection agency rackets and schemes being worked throughout the country and, although some states require collection agencies to post a bond, little or no protection actually results because the contracts are skillfully drawn so as to be within the law and yet mislead and mulct the retailer. Some examples may be interesting.

The contract of one agency has a clause permitting it to hold all partial payments on account until the account has been fully paid—so that if the account is never fully paid, nothing is remitted. Another has a clause providing that if an itemized statement is called for and is not furnished by the merchant in ten days, the agency can immediately charge 15 per cent of the claim and close its files on the account.

Still another provides that the accounts may be withdrawn by the merchant after 120 days, but in another paragraph it is specified that the consideration to the agency shall be 25 per cent of the aggregate amount of the accounts listed if the total be $1,000 or more and 30 per cent if the total is less than $1,000. A merchant who listed 18 accounts totaling $439.02 with this agency not only received nothing on the transaction but ended up owing the agency money. For, in closing its files, the agency had collected only $27.75, which it kept, and sent the merchant a bill for $103.95 since a consideration of 30 per cent of the $439.02, or $131.70, was due it under the contract.

"Guarantees" and advance payments.—The racketeering collection agency schemes are usually dressed up with considerable sales appeal which tricks all but the most wary. They often hold out a "guarantee" of some kind. In one case the guarantee takes the form of a "refund check" which, if the system of form notices and letters furnished the merchant by the agency fails to collect the amount

specified, the merchant can deposit and get his money back. However, the check is so phrased that the bank will not cash it until the agency has given its O.K., which may be refused because of various technicalities.

In another case the agency, in consideration of payment to it in advance of $300, "guarantees" to collect $1,000. The advance payment is really a donation since it is not to be computed as a part of the collection fees which range up to 30 per cent of the amounts collected.

Legitimate collection agencies do not require advance payments, docket fees, or any other kind of payments in advance to induce them to accept accounts for collection (probably these extras are made to compensate the high-pressure salesmen of the racketeering collection agencies for soliciting accounts). Neither do they guarantee to collect. Contracts carrying such guarantees also contain a joker paragraph somewhere.

"Purchasing" and assignment of accounts.—Another sales angle is represented by the collection agency whose solicitors offer to buy the merchant's delinquent accounts at a discount—a proposition which appears attractive but turns out to be misleading. The merchant who signs a contract with a collection agency to purchase, liquidate or discount his delinquent accounts, believing that he is to be paid for them in cash to the extent of around 70 per cent of the aggregate amount he turns over within the period of a few weeks or a month which is "necessary to verify the accounts," is due for a sad awakening.

He wakes up to find that he has assigned them to the collection agency but that the agency has bound itself to pay for only those accounts which it considers good. Not only does he find that he is not to be paid for all accounts turned over by him, but that extra charges in addition to discounts or collection commissions result in disappointingly small net proceeds. But he cannot withdraw the accounts without paying the agency its commission on all of them since he has assigned them to it.

Legitimate collection agencies do not require retailers to assign accounts except in extraordinary cases. Even where the racketeering collection agency contract does not provide for the assignment of accounts, the provision is generally made that the retailer cannot withdraw unpaid accounts either before or at the expiration of the contract without paying the agency its commission on all such unpaid accounts.

Miscellaneous "catches."—When the collection agency guarantees to collect some specified sum, say $1,000, the contract usually requires the merchant to keep on sending the agency accounts indefinitely—on those which are difficult to locate or to collect it may make no effort but simply ask for additional accounts. When collection fees are higher on small *payments,* it is possible for the agency to divide the payments received from a debtor and get a higher rate of commission. Often nothing is said about the agency returning the unpaid accounts at the expiration of the contract. Sometimes the agency guarantees to pay all "costs of suits," but just what this covers is not always clear—it may not include attorney's fees—and it is meaningless in those states which prohibit by law any collection agency from advancing costs of suits. The contract may provide that at its expiration the agency has the right to retain for final collection all accounts upon which payments are being made. This would make it possible for the agency to pay the merchant a dollar or so on each account and retain them indefinitely. In some cases, agencies whose contracts allow them to retain all payments made to them until the expiration of the contracts, have failed without paying their clients and then organized a new company.

To fully discuss the possible catches in the contracts of racketeering collection agencies would require much more space than can be devoted to it here. However, the following suggestions in regard to dealing with collection agencies are worth consideration.

1. ***Investigate the collection agency before contracting with it.***—The retailer may secure information about collec-

tion agencies from his bank, Better Business Bureaus, Chambers of Commerce, the local credit bureau, or other merchants who have had dealings with collection agencies. A fellow retailer who is *having* experience with a collection agency (i.e. a merchant who has recently signed up with an agency) will often not be able to give as valuable information as a merchant who has *had* dealings with it.

The manager of credit sales should select his collection agency with just as much care as he exercises in extending credit to a customer, because he is really going to extend credit to the collection agency which is securing possession of assets in the form of delinquent accounts upon consideration of returning them or rendering the store a future equivalent. And in remitting, the agency may be good or bad pay just like a customer. He should keep a record of the accounts turned over to the agency and maintain a system for following up to keep informed of the status of the accounts and of the remittances just as in regular collection follow-up as applied to ordinary customers. He should assure himself that the agency is bonded for the protection of its clients, and that it is honest and efficient.

2. *Do not be misled by high-flown names, imposing literature and super-salesmanship.*—Racketeering collection agencies operate under imposing names, holding themselves forth as guaranty companies, adjustment corporations, financial clearance companies, discount corporations, etc., with "offices in principal cities."

The experienced manager of credit sales is instantly on his guard when he discovers that the high-pressure salesman calling upon him represents an out-of-town company with high-flown name but whose business is fundamentally collecting delinquent accounts. He generally prefers to select a local collection agency, and there are dependable local agencies to be found in every part of the country. It should be easier to investigate, visit, and secure honest and satisfactory treatment from the local agency which is located in the midst of the firms it is serving and must satisfy in order to continue to exist.

3. *Select an agency which will give you the service you desire.*—Find out whether the agency collects courteously and attempts to retain the good will of the debtors or uses methods which you may feel are objectionable or hard-boiled. Also determine whether the agency uses personal collectors as well as letters, for it is generally felt that a mere collection letter scheme is not fully efficient. Ascertain just when and how the agency agrees to make remittances and to report upon the status of your accounts. Finally, be sure just what it is going to cost you. A schedule of what are considered fair rates for collecting retailers' accounts may be secured from the Associated Credit Bureaus of America which is located in St. Louis, Missouri. Discover what special or extra charges may be necessary.

4. *Retain title to the accounts you turn over to the collection agency.*—Avoid contracts which call for assigning the accounts to the agency or which would not make it possible to withdraw them at any time without obligation. The agency should be required to sign for the accounts you turn over, and you should keep a record of the accounts you have turned over to it.

5. *Cooperate with the collection agency.*—All information requested by the agency should be promptly given it, since collection in some cases may depend upon some apparently minor bit of information and upon immediate action. Turn accounts over to the agency before they have become so old as to greatly diminish the possibility of collection.

If the collection agency renders highly satisfactory service, give it your business rather than scattering your delinquent accounts among many agencies. This should encourage still better service from the agency and should decrease your own clerical work in handling delinquent accounts.

If the debtor pays money direct to you after his account has been turned over to the agency, you should inform the agency for a commission is due the agency on the payment.

The agency has gone to a certain amount of labor and expense in recording and filing the claim, perhaps tracing the debtor and sending notices to him. Also, whereas some debtors make payments to the agency or directly to the retailer as a result of relatively little effort and expense, others call for a great deal of expensive work, and the commissions of the agency must therefore be based upon an average and not upon the expense connected in collecting any one particular claim.

It is alleged to be quite common for a merchant to fail to report payments made upon accounts which he has turned over to the agency for collection, and even for a merchant to refuse to pay commissions in such cases. Furthermore, it may be noted that there may be a tendency for delinquents to make payments directly to the merchant after the collection agency has begun working on them. The debtors may find it more convenient to go to the store than to the collection agency office, they may feel that they are preventing the agency from getting any commission (and they naturally tend to dislike the agency), and they undoubtedly feel that it does not make any difference where they make payment.

The merchant should deal fairly with the collection agency just as he expects it to deal fairly with him. The question has been raised as to whether the amount lost by merchants, from collection agencies failing to remit amounts collected, is as large as the amount lost by collection agencies, due to merchants receiving direct payments from debtors and failing to grant collection agencies their legitimate commissions on such payments.

Attorneys.—Either the collection agency or the attorney may be used by the manager of credit sales when he feels that he has exhausted all other resources. But generally in retail trade the collection agency is used first and if it is not successful, the account is then turned over to the attorney who continues the collection pressure by using letters, the telephone or personal calls.

While he uses the same methods of exerting pressure on the debtor as were employed by the collection agency and previously by the store, the attorney's communications may have a stronger psychological effect upon the debtor who realizes that the matter is now in the hands of one who can start suit immediately, and that the end is drawing near.

Needless to say, the selection of an attorney to handle collections should be made with care because if the attorney should turn out to be inefficient or slow in remitting, he would be the hardest person in the world to collect from since he knows the law and other lawyers will seldom take a case against an attorney. Lists of bonded attorneys who specialize in collection work are published by the United States Fidelity and Guaranty Company, Martindales, and other organizations to aid in the selection of attorneys for local or out-of-town collections.

10. *Suits*

In cases where the debtor fails to yield to the pressure of the collection agency or attorney, the manager of credit sales must decide whether suit is advisable. If it is determined that the debtor is not judgment-proof, the store advances cost of the suit to secure judgment. If as a result payment is not forthcoming, the judgment is executed, or if there is no property upon which to levy, the judgment is filed so as to constitute a lien against any real property which the debtor may later acquire.

Even if a claim is collectible under judgment, the amount of the bill may be so small that to advance several dollars for court costs and pay an attorney half of what is collected would make suit ordinarily not worth while. Yet the aggregate amount of numerous small delinquent accounts may be so large that the retailer dislikes to charge off the considerable sum involved.

Small claims' courts.—To meet this situation, some states (California, in 1931 and Utah, in 1933) enacted legislation providing for small claims' courts, and in other states such courts have been organized in certain cities like New York, Cleveland, Chicago, Minneapolis, Washington, D. C., and

Kansas City. A committee of the American Bar Association, reporting in 1934, endorsed the establishment of soundly designed small claims' courts.

Such courts are usually given jurisdiction over actions for the recovery of money where the amount claimed does not exceed $50 and where the defendant resides within the jurisdiction of the court. The procedure is extremely simple. The plaintiff submits his claim on a form affidavit to the court clerk who issues a notice to the defendant, notifying him of the claim and of the fact that unless he appears at the hearing, judgment will be entered against him by default.

The advantages are many. The cost of bringing action, which is usually between one and two dollars, is less than in regular municipal or city court cases. The action is speedier (the usual provision is that the trial shall be held in not less than five nor more than ten days after action is begun), and thus judgment may be secured within a week or two. The procedure is more simple because the various formal legal documents employed in ordinary suits are eliminated and attorneys are rendered unnecessary. The only legal document used is the form affidavit referred to above.

Litigation over small claims by the ordinary common-law method is wasteful because of the expense to the parties and the tax payer being far too great considering the amounts involved, because of the delay and consequent waste of time of the parties, and because frequently debtors owing small bills refuse to pay precisely because they realize it would not pay the creditor to sue.

Throughout the discussion of collection tools and methods in this and the preceding chapter, it has been assumed that the debtor was *able* to pay even though possibly negligent or unwilling. However, suppose he is *willing* to pay but is unable either to pay now, to pay in full, or to pay at all. These questions we shall consider in the following chapter.

QUESTIONS

1. For what different purposes are outside representatives of the credit sales department used in various stores?

2. Explain the personal call service offered by the Railway Express Agency.

3. What are the advantages and disadvantages of the personal call in collections?

4. "Collection agencies and attorneys have no secret or exclusive collection technique not open to use by the manager of credit sales." Why, then, do they collect accounts he is unable to collect?

5. What are the reasons for the use of house agencies and house attorneys?

6. Why are the collection departments of credit bureaus so often preferred by managers of credit sales?

7. Explain some of the "catches" in collection agency rackets.

8. Give rules for dealing with collection agencies.

9. How may responsible collection attorneys be selected? Should they be used before, after, or instead of collection agencies?

10. When is suit advisable? What are small claims' courts and what advantages do they offer?

CHAPTER XV

REHABILITATING THE DELINQUENT CUSTOMER

As the collection follow-up proceeds, the manager of credit sales endeavors to separate the delinquent accounts as soon as possible into three main classes: 1. those who are simply unable to pay; 2. those who are able but unwilling; 3. those who are willing but are unable either to pay at once, or to pay in full even if given time.

The cases of customers in the first class are handled by promptly repossessing or charging off, depending upon whether the transaction is an installment sale of durable goods or ordinary charge business. Those in the second class are subjected to increasing pressure by use of the collection tools and methods previously discussed.

But delinquents who fall in the third class merit, demand and require rehabilitation by the manager of credit sales so that they may be restored to a sound credit standing. It is with this class of delinquents, who are willing but unable to pay at once, or in full, that we are concerned in this chapter. What are the methods which may be employed in rehabilitating them?

1. *Extensions*

The simplest method of helping the financially embarrassed but honest debtor is to grant an extension of time, and this is often used in both installment and charge account business. The nature of the extension varies greatly.

In installment selling, extending the length of the contract (rarely is it possible for the delinquent to make up his missed payments) may be all that is necessary in some cases, while in others the size of the installment payments must be reduced in addition to lengthening the contract.

In all cases an extra carrying charge, and sometimes other fees, should be imposed for the additional time.

Varieties of extensions.—In regular charge business, an extension may range all the way from a simple understanding, postponing the payment of the debtor's balance until some definite future date, to a signed and witnessed extension agreement covering the liquidation of the balance in specified installment payments. And in between these extremes there are various practices.

The corner grocer may make an oral agreement with his debtor whereby the latter is to pay a specified amount on his delinquent balance each pay day and pay cash for his current needs. Some retailers accept a note signed by husband and wife for the past due balance or take a series of post-dated checks. Debtors may hesitate to sign notes, especially during a period of unemployment or depression, but will not object to acknowledging the account, and the practice of one manager of credit sales during the depression was to rubber stamp the following form on the debtor's statement and have him sign it:

> The Above Account, $________, Due by Me, is True, Correct and Unpaid. This ______________ Day of __________________ 19______.
>
> Signed ______________________

Signing the above acknowledgment makes the account a stated account which prevents the debtor from disputing its correctness if legal action is taken to collect it, and keeps the statute of limitations from rendering it legally uncollectible until the number of years specified by state law has elapsed.

Formal extensions.—The formal extension agreement, signed by husband and wife and providing for the payment of the delinquent balance in specified installments, came into much use in the Thirties' depression and World War

II. One of the best examples of these extension agreements is the Los Angeles form which is shown below.

An "Extension Agreement" Form

The undersigned admits that ______________________ indebted to ______________________, a corporation, upon an open book account for the necessaries of life, furnished to ______________________ and family, in the amount of ____________________ Dollars which includes a carrying charge of $________________, and that said corporation has granted an extension of time for the amount of said indebtedness as follows: to wit:

The sum of __________________ Dollars, to be paid on or before ____________________ 19______ and __________ __________________ Dollars to be paid on or before ____ __________________ 19______ and ____________________ Dollars to be paid on or before ______________________ with interest from _________________________ 19______ upon deferred payments until the principal sum shall be fully paid at the rate of __________ per cent per annum.

If default should be made in any payment, as above set forth, the whole balance of said indebtedness upon said book account with interest at the rate aforesaid, shall become immediately payable at the option of said corporation, without notice.

In consideration of the granting of the aforesaid extensions of time, the undersigned promises, in case suit is brought upon said book account, to pay such additional sum as the court may adjudge reasonable as attorney's fees in said suit.

Dated _____________ 19_____________________________

Los Angeles, California.

____

Witness: _____________________________________

The general practice is to charge interest on delinquent accounts which are put upon an installment payment basis. This does not make the delinquent pay the total cost of the

extension (because there is more than interest cost involved in carrying an account), but it does yield the store partial compensation. The value of such extension agreements is that they secure a witnessed acknowledgment of the debt signed by both husband and wife and put the liquidation of the indebtedness on a specific, clearly understood basis.

Principles.—It is a fundamental principle in both installment and charge business that an extension should never be made except in consideration of a definite understanding that the agreed-upon payments are to be made promptly and strictly according to the new agreement.

A second generally acknowledged principle is that until the indebtedness has been liquidated under the extension agreement, further credit will be restricted, buying for current needs being placed upon a cash basis. Some credit men, after getting a note or other type of extension arrangement on the past due indebtedness, allow the delinquent to continue charging under terms of a specified credit limit and agreement to pay for each month's purchases in full. But this procedure is generally regarded as unsound, usually working out most unsatisfactorily in practice.

Limitations.—Finally, it should be made clear that whereas the extension method is suitable for the debtor who is delinquent with one firm, it is not as serviceable as other methods (discussed below) in case the customer is delinquent at a number of stores. In cases of the latter type, the safest method for the manager of credit sales is to persuade the debtor to refinance his debts or pool his accounts.

2. *Refinancing the Delinquent*

When the manager of credit sales finds that a delinquent has become slow with a number of other retailers, and it is clear that considerable time would be necessary for the ultimate settlement of the indebtedness through an extension arrangement, the most effective method of rehabili-

tating the delinquent and collecting the account is often found in persuading the debtor to refinance his debts. This means borrowing enough from some consumer credit institution to pay his past due indebtedness to the merchants immediately, and then repaying the loan in a series of installments stretching over a period of as long as 20 months.

Advantages.—This method is advantageous to the debtor because it consolidates his indebtedness in one place, furnishes a plan for liquidating it by payments adapted to his income, and removes him from constant harassing by creditors. It is advantageous to the manager of credit sales because it enables him to collect the full indebtedness *at once* for his store, whereas the cost of collecting it in small amounts over an extended period of time would be heavy and the possibility of eventually failing to collect part or all of the debt would be great.

The use of this method of rehabilitating delinquents has grown more widespread as managers of credit sales have become more and more aware of its benefits and as financial institutions of various types have grown up so that all classes of consumers may be served. Not only wealthy customers, who always could borrow from the regular commercial banks, but all classes of consumers from the well-to-do down through the middle class to the wage earner are now able to borrow for the purpose of promptly liquidating past due bills from: commercial banks, personal loan departments of banks, industrial banks, small loan companies, credit unions, remedial loan societies, and so on.

The benefits of refinancing as a method of rehabilitating the delinquent are indicated by the fact that in some communities the merchants have organized their own loan companies to function in close cooperation with the local retail credit association and credit bureau for this purpose, and by the fact that many managers of credit sales suggest refinancing to their delinquent customers. One of the printed forms used in this connection is shown below.

Showing Delinquents How to Pay by Refinancing Their Bills

PROTECT YOUR CREDIT

Did you know that over 125 of the leading retailers of Worcester rate their customers with the Credit Reporting Bureau of the Worcester Chamber of Commerce as to how their bills are paid?

Every credit customer who deals with these concerns makes a record which is on file at the Credit Bureau and is published in a rating book.

Your account with us is now overdue. If for any reason you are unable to settle it at once, a note of the [finance] company, indorsed by the Denholm & McKay Company, will close your account and thereby give you a satisfactory rating.

This will give you an extension of time and you can pay the [finance] company in weekly installments.

Please call at our charge office and have this modern method of liquidating accounts explained to you.

DENHOLM & McKAY COMPANY
Worcester, Massachusetts.

"PROMPT PAY MAINTAINS CREDIT"

James Wilson, Credit Manager of Denholm and McKay Company and one of the founders of the National Retail Credit Association, started in 1916 to use the method of getting delinquent customers to liquidate their indebtedness by borrowing, and since that date has liquidated slow accounts on a refinancing basis to the extent of "hundreds of thousands of dollars, which has had the effect of not only reducing the percentage of bad debt loss but has increased the percentage of collections."

Limitations.—It may be necessary for creditors to endorse the note of the debtor who wishes to borrow in order to refinance his indebtedness. This is the general practice if the refinancing is done by loan companies owned by the

merchants, industrial or Morris Plan type banks, or personal loan departments of commercial banks specializing in refinancing past due accounts. In case the debtor borrows from a credit union or small loan company, no indorsements by creditors are necessary.

Refinancing the debtor's past due bills owed to merchants, just like the extension agreement, is suitable for some but not for all cases of rehabilitating delinquents. Sometimes the manager of credit sales will find that a debtor is so heavily involved all around that it would be foolish to think of solving the difficulty by an extension, and it would be impossible for the delinquent to secure a loan from any source for the purpose of refinancing his indebtedness. In such cases, resort may be had to a third method of rehabilitating delinquents. This is the pooling of accounts.

3. Pooling the Delinquent's Accounts

The number of communities with pooling plans increased greatly after the 1930 crisis. The essence of a plan for pooling delinquent accounts is that some central agency, like the local credit bureau, gets the debtor to agree to make regular installment payments to it and brings his creditors to agree to accept pro rata distribution of these payments and not proceed against him meanwhile.

Debtors are referred to the pooling agency by retail merchants or other creditors and sometimes by local courts. Each debtor applying is required to provide an accurate and complete list of his indebtedness and his creditors, a statement of his earnings from all sources, and a list of his necessary current expenses. A representative of the pooling agency then determines whether it is possible to make an arrangement for liquidation satisfactory to all concerned. If the consent of the creditors to participate in the pool is secured, the customer is then required to sign an agreement to make periodic payments or to execute an assignment of his wages to the pooling agency which will refund to him all money over and above the amounts

to be distributed pro rata among the creditors, or according to the size of the claim of each.

The arguments for, or advantages of, the establishment of a pooled account plan by the merchants of a community are as follows.

Worthy debtors are helped.—Honest debtors are given the opportunity to rehabilitate themselves by liquidating their indebtedness over an extended period of time without being harassed by creditors.

From time to time, particularly during depressions, thousands of honest customers become financially involved through no fault of their own. Because of unemployment, reduction of income or other misfortunes, consumers who have every intention of paying their just debts in full become so financially embarrassed that ultimate liquidation of indebtedness requires an extremely long time. Such customers have been desirable credit risks in the past and deserve to be helped in every way possible to get on their feet financially.

Creditors are spared considerable loss by curbing bankruptcy.—Furthermore, if these customers are continually pressed by their creditors, many of them will resort to the bankruptcy court for relief with the result of financial loss to the creditors and a lowering of the morale of the debtor. Garnishments of wages may cause the worker to lose his position, while unremitting pressure from creditors from all sides puts the worker in fear of losing his job or being frequently garnisheed and causes worry and inefficient work. He may come to feel that he is being unfairly pressed and persecuted by his creditors and that he will never be able to make a comeback, and from this it is but a short step to the decision to take bankruptcy.

Getting the debtor to consolidate his indebtedness so that he is able to liquidate it in installments out of current income over a period of months, whether done by persuading the debtor to borrow and refinance his indebtedness or

to pool his accounts, gives the debtor a plan for getting back on his feet without going through bankruptcy.

Benefits to the bureau.—When the local credit bureau administers the pooled accounts plan, it may be able to develop good prospects for membership in the bureau and the association since merchants who are not members will be brought into contact with the facilities and activities of these organizations. Also, additional information is yielded for the local credit bureau's files, and the operation of the pool may be a source of increased revenue for the bureau.

Some credit bureaus when acting as pooling agencies make no charge either to the debtor or to the creditors for the service. Others assess no charge against the debtor but deduct a commission of 10 or 15 per cent or more from the remittances made to creditors, while still others make both the debtor and creditor participate in standing the expense of the work, usually charging the debtor a flat service or filing fee of small amount and deducting a percentage of the payments remitted to creditors.

Pooling may make possible a scaling down of indebtedness.—Probably the only significant advantage of pooling over the method of persuading the debtor to refinance his past due bills, by means of a loan from a private institution or from a loan company owned by the merchants, is that the pooling plan is especially appropriate for those cases where the debtor can never pay out in full and where if he is to be saved from bankruptcy a scaling down of his debts is indispensable.

Limitations.—But it is not always easy to get creditors to agree to cooperate in a pooling plan, to say nothing of agreeing upon scaling down the debts owed them by the customer, and there are other disadvantages associated with pooling which prevent it from becoming a panacea to take the place of the extension or refinancing methods previously discussed. The disadvantages generally encountered in the establishment and operation of pooling plans are several.

Competition with members.—Competition with companies which are members of the local bureau and association including banks having personal loan departments, licensed small loan companies, and industrial loan companies may result. Since the local credit bureau normally does not attempt to compete with the firms which compose its membership, the inauguration of a pooled account plan may mean the adoption of a new policy of engaging in competition with certain member companies.

However, if only those accounts are pooled which (a) require scaling down of indebtedness or (b) cannot qualify for a loan from a member company, competition would be avoided. There are plenty of such involved cases as indicated by the fact that even small loan companies generally have to refuse from 30 to 40 per cent of the indebted families which apply to them for a loan to clean up past due bills.

Also, when pooling is operated for the benefit of those who could refinance their indebtedness by securing a loan, the pooling agency is simply going to unnecessary trouble to perform a function which can be more efficiently and quickly performed by a lending institution which does not confront the difficult problem of getting a group of disinterested creditors to go along to make possible the rehabilitation of the delinquent.

Unwillingness on the part of certain creditors to allow the pooling agency a commission for its services.—While the creditors of a delinquent may be quite willing to agree to a pooling arrangement, some of them, especially friends, relatives, landlords and small merchants, may strenuously object to paying the pooling agency its necessary commission or fee for operating the plan and collecting the installment payments.

Refusal of some creditors to participate in the pool.—In many instances attorneys, creditors having chattel mortgages or conditional sales contracts, and others flatly refuse to participate in a pooling arrangement.

Those creditors whose bills are so small that suits would be inadvisable are usually willing to cooperate, but creditors having large amounts at issue or possessing a prior lien are frequently unwilling to cooperate and a pooling arrangement is impossible. Much work may be done and expense incurred by the pooling agency in trying to round up the creditors only to meet with failure.

Benefits to the bureau do not always fully materialize.—Some additional information is secured by the bureau when acting as the pooling agency and contact is made with many non-members, but the latter may react frequently in a negative and disinterested way to the pooling proposal offered them and in consequence may not be favorably disposed toward becoming members.

The increased revenue which the bureau expects to derive from operating the pool frequently proves disappointing. In one case where the bureau conservatively expected to receive about $10,000 per year in fees and commissions the actual results were less than $1,000. The commission was 15 per cent of the payments remitted to creditors and a fee of three dollars was collected from each debtor as a service charge to cover initial expenses in investigating the case.

In Milwaukee a pooled account program was inaugurated in July, 1933, and it was decided to discontinue the plan in January, 1936. While between 300 and 400 applicants were interviewed, it was possible to make pooling arrangements in the case of only 68 having a total indebtedness of $18,619.98.

Opposition of the legal fraternity.—In the Milwaukee case, suit was instituted on May 6, 1935 by an attorney, representing one of the debtor's creditors, alleging that in operating a pooled account program the local association was engaged illegally in the practice of law because of: (a) the charge of 15 per cent to creditors for the collection of money; (b) the drawing of legal documents (assignment of wages); and (c) the furnishing of technical legal advice by a layman unauthorized by law to do so.

Subsequently both the Junior and Senior Bar Associations of the city filed separate briefs in support of this attorney. Being unwilling to undertake the expense of prosecuting the case in the local and supreme court in view of the lack of creditor interest in continuing the pooling program and the small number of cases being handled, the local association agreed to discontinue the pooled account program in January, 1936.

Pooling agencies perform a valuable service in seeking to prevail upon creditors to avoid attaching wages or engaging in other unduly severe proceedings in the case of an honest but embarrassed customer. This becomes especially important in the case where the unemployed debtor goes back to work and the tendency is for his insistent creditors to pounce upon him immediately. The pooling agency, like constructive consumer lending institutions, also performs an important service in assisting debtors in budgeting their income and offering them constructive counsel relative to living expenses and past due obligations.

But if the financial status of the debtor is such that he can secure a loan to refinance his indebtedness, he should be advised to do so. The advantages here are that the creditors are paid immediately instead of being paid piecemeal over a long period of months, and the pooling agency is released from the work and expense necessitated in trying to bring the debtor's creditors to cooperate. In case a loan cannot be arranged, a pooling plan may be suggested.

4. Rehabilitation of Debtors Through the Courts

Rehabilitation of debtors may take place through the courts according to various methods in different parts of the country.

Personal receivership laws.—In 1933, Ohio and Michigan enacted personal receivership laws (applying only in cities of 50,000 to 500,000 in the latter state) which allow a debtor to assign his future wages to the clerk of the court who

returns 60 per cent of the wages plus one dollar for each dependent child if the debtor is married, or 20 per cent if he is single.

The debtor is required to file a certified statement listing his creditors and the amount owed to each one. The amount withheld from the debtor's wages is prorated among his creditors at least once every 60 days or when the amount collected reaches $50.

Installment payment of judgments.—Making it possible for him to liquidate his debt in installments without fear of garnishment after judgment is taken against him, would seem to be helpful in a program for the rehabilitation of a delinquent. Such provisions are especially valuable in the case of states having a drastic garnishment law like that of Michigan which permits a creditor to attach 70 per cent of the debtor's wages if single and 40 per cent if married, and to make him pay two dollars for each judgment and two dollars and a half for each garnishment order.

In 1933, a Michigan law was passed applying to the Common Pleas Court for the city of Detroit. This law provided that: (a) motions for partial payment on judgments might be made by either party to the action, (b) the Court should fix the amount of such payments based upon the debtor's wages, after a hearing, (c) payments were to be made to the Court, (d) writs of garnishment in execution of the judgment should not be issued while the debtor made the agreed payments, and (e) upon failure of the debtor to make such payments the order of the Court would be set aside and the creditor might proceed with garnishment.

When a debtor has no means of satisfying a judgment other than his salary or wages, he may file a motion for partial payment within five days after the judgment is rendered, thereby avoiding garnishment. He furnishes an affidavit made by his employer as to the amount of his salary or wages, and makes a certified statement showing the amount of the judgment or judgments, the name of his employer, the number of his dependents, a list of all his

creditors with amounts owing, and makes an offer to pay each pay day a certain amount to the Court to be applied on the judgment.

The amount of the payment, which is usually ten per cent of the debtor's salary or wages, is set by the Court after a hearing, and each pay day the money is paid directly to the Court which distributes it to the creditors. The debtor does not need an attorney (very usually he is represented by his wife so he will not miss any work), and is not called upon to pay any fees.

The law applied only to Detroit but in the first 18 months of operation 22,500 claims were handled.* It is to be noted that while debtors are helped by providing for the installment payment of judgments without fear of garnishment, there is no consolidation and liquidation of the total past due indebtedness as may be possible under the methods of refinancing, pooling, and the personal receivership laws previously mentioned.

Extensions and compositions under the Bankruptcy Act. —The National Bankruptcy Act does not permit of an involuntary adjudication in bankruptcy of wage earners without their consent. But Section 74, approved March 3, 1933, permits any person to petition for an extension or composition, and this has been applied to wage earners most notably in Birmingham, Alabama.

The Birmingham special referee under Section 74, appointed by the Federal judge in that district, aids the debtor in working out a plan of extension, in preparing his petition, notifying the creditors, collecting and distributing the payments to the creditors, and generally supervises the extension. This Plan was used from April 1933 to 1938 under Section 74 and then continued under Chapter XIII of the Chandler Act. Through 1946, Birmingham creditors recovered $2,945,499 and were realizing $30,000 monthly in 1947.

*Within 4 years, 55,000 cases had been taken care of by the Court. Among the creditors concerned, especially numerous were installment sellers of various types, while in only about one per cent of the cases were small loan or personal finance companies involved.

When a wage earner or debtor resorts to an extension or composition, rather than taking bankruptcy, the problem arises as to what means shall be used for encouraging or compelling him to carry out in good faith his agreement with his creditors. In the Debtor's Court of Birmingham the means used is an agreement in writing accompanying the debtor's petition for extension or composition with his creditors, which is for all practical purposes an assignment of his wages or salary over and above adequate living expenses.

Further, according to a ruling made in May, 1935 by the Federal judge in the Birmingham district, when a man agrees to pay his creditors through the extended payments plan of the Debtor's Court, he cannot enter into bankruptcy while his case is pending without showing cause why he cannot continue payments. And debts created subsequent to entering the Court cannot interfere with the program through garnishments or any other measures. The Court has jurisdiction over the future earnings of a person who agrees to follow its program, as long as his case is pending.

Little application of Section 74 to wage earners was made outside of the case cited, and proposals introduced in Congress for the purpose of clarifying and extending its provisions resulted in Section XIII of the Chandler Bankruptcy Act.

Extensions and compositions under Chapter XIII of the Chandler Bankruptcy Act.—The Chandler Bankruptcy Act (*Public—No. 696—75th Congress—Chapter 575—3rd Session*), enacted in 1938, is the first general revision of the Uniform Bankruptcy Act since the 90's, and *Chapter XIII* of the Act places wage earners under the protection of the court for the purpose of working out a plan of settlement with creditors.

As defined for the purpose of the new Act, a wage earner is an individual who works for wages, salary or hire at a rate of compensation which when added to all his other income, does not exceed $3,600 per year—whereas, the gen-

eral Bankruptcy law defined a wage earner as one whose income does not exceed $1,500 annually.

The debtor may file a petition under *Chapter XIII* in a pending bankruptcy proceeding either before or after his adjudication. If no bankruptcy proceeding is pending, a debtor may file an original petition under this chapter with the court which would have jurisdiction of a petition for his adjudication.

The petition must state that the debtor is insolvent or unable to pay his debts as they mature and that he desires to effect a composition or extension, or both, out of his future earnings or wages. When filed, the petition acts as a stay of adjudication or of administration of the estate. Thus, the purpose is to protect wage earners from garnishment, undue pressure, and harassment by creditors.

Provisions of plan.—The provisions of the wage earners' plan, as set forth by the Act, are as follows. It:

(1) shall include provisions dealing with unsecured debts generally, upon any terms;

(2) may include provisions dealing with secured debts severally, upon any terms;

(3) may provide for priority of payment during the period of extension as between the secured and unsecured debts affected by the plan;

(4) shall include provisions for the submission of future earnings or wages of the debtor to the supervision and control of the court for the purpose of enforcing the plan;

(5) shall provide that the court may from time to time during the period of extension increase or reduce the amount of any of the installment payments provided by the plan, or extend or shorten the time for any such payments, where it shall be made to appear, after hearing upon such notice as the court may designate, that the circumstances of the debtor so warrant or require;

(6) may include provisions for the rejection of executory contracts of the debtor, and

(7) may include any other appropriate provisions not inconsistent with this chapter.

Powers of the court.—As previously mentioned, little use was made of Section 74 of the National Bankruptcy Act because, among other things, there was uncertainty as to whether it could be applied legally to wage earners and as to what powers could be lawfully exercised by the court in such cases. These matters are clarified in Section XIII.

A plan, after confirmation by the court, is binding upon the debtor and all his creditors whether or not they are affected by the plan, or have accepted it, or have filed their claims, and whether or not their claims have been scheduled or are allowed, or are allowable. Before confirming any plan the court shall require proof from each creditor filing a claim that such claim is free from usury as defined by the laws of the place where the debt was contracted.

The court in which the petition is filed has exclusive jurisdiction of the debtor and his property and earnings during the period of consummation of the plan, and has supervision and control of any agreement or assignment provided for in respect to future earnings of the debtor. The court may issue such orders that may be requisite to effectuate the provisions of the plan, including orders directed to the debtor's employer, enforceable in the manner provided for the enforcement of judgments.

Also, the court may enjoin or stay until final decree the commencement or continuation of suits (including suits to enforce liens upon the debtor's property, upon notice and for cause shown) against the debtor.

Cost.—The initial fee for filing the petition is $15, and of the payments made under a plan, the referee receives one per cent and the trustee five per cent, while the debtor's attorney is allowed a reasonable fee for professional services.

Moral obligation of bankrupts.—As pointed out in an earlier chapter, managers of credit sales seem to be very much in agreement on the point that in the case of bankruptcies involving personal accounts (for example, debts owed to the grocer, the butcher, the doctor, the department store, and so on), no further credit should be extended until such accounts are paid. For, while legally the person's obligation is extinguished, the moral obligation still exists and it does not seem wise to extend credit on top of the credit already extended.

A great many debtors have been advised by their attorneys to go through bankruptcy in order to avoid their debts, and when they seek to buy again on credit it is true that they may be somewhat surprised when the credit granter confronts them with their moral obligation. But there are too many cases of customers going bankrupt on several occasions owing a different set of local creditors each time, because the latter were apparently too eager to take the business regardless of the customer's moral background. Naturally, if customers have gone through an especially trying time such as a local flood or fire which has wiped out their assets and forced them to start again at the beginning, exceptions would be made.

QUESTIONS

1. In what three main groups may delinquents be classified? In general how should each be treated in collection follow-up?

2. Describe the different ways of handling extensions.

3. What principles should be followed in making extensions? In what cases are extensions not suitable?

4. Explain the advantages of having the delinquent refinance his indebtedness by borrowing. What should be done if a delinquent is unable to borrow?

5. What are the arguments for and against pooling the delinquent's accounts? What is "probably the only sig-

nificant advantage of pooling over the method of persuading the debtor to refinance his past due bills by means of a loan''?

6. What advantages do you see in personal receivership laws?

7. Comment on the general provisions and purposes of the Michigan law providing for installment payment of judgments.

8. How have the provisions of the National Bankruptcy Act been used in Birmingham to rehabilitate debtors? Give your opinion as to why other cities have been slow to follow the Birmingham example.

9. Describe the salient features of Section XIII of the Chandler Bankruptcy Act.

10. Under what conditions should a bankrupt be extended more credit?

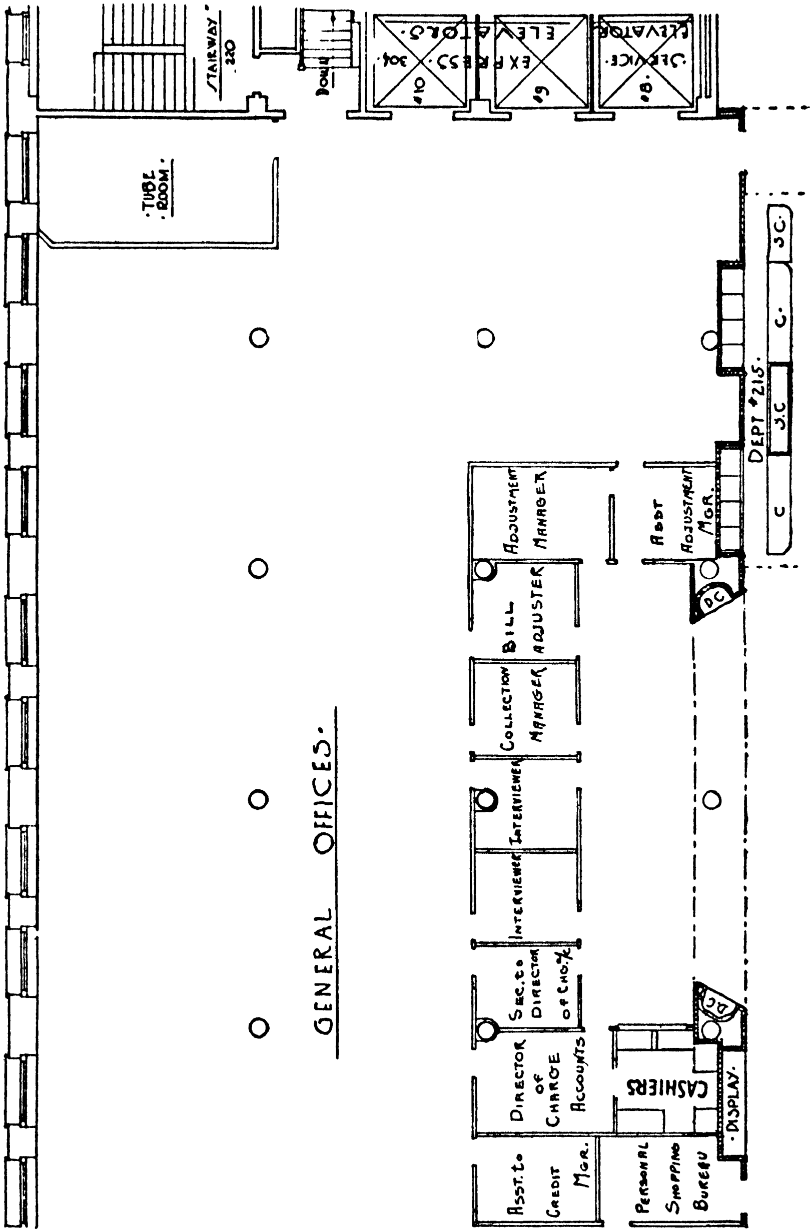

FIG. 14. A GOOD CREDIT OFFICE LAY-OUT. LORD & TAYLOR, NEW YORK CITY.

INDEX

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P